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Print Edition — December 16th 2006

On the cover
Russia's habitual abuse of its energy muscle is bad for its citizens, its neighbourhood and the world: leader

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Politics this week

Dec 13th 2006
From The Economist print edition

AFP

A stalemate continued between the **Lebanese** government and the opposition, whose supporters, more than 1m-strong, thronged the streets of central Beirut, demanding the removal of the prime minister, Fouad Siniora, and the creation of a national unity government in which Hizbullah, the main Shia party, would have a veto. See article

Leading Iraqi politicians criticised the report published last week by the **Iraq Study Group** co-chaired by James Baker, a former secretary of state. Iraq's president, Jalal Talabani, a Kurd, said it undermined Iraq's sovereignty. The White House said George Bush would not unveil his new strategy until sometime in January. Sectarian violence continued with one lorry bomb in Baghdad killing at least 70 Shia labourers on December 12th. See article

Iran held a long-heralded conference questioning whether the **Holocaust** ever happened. One of the guests was David Duke, a former grand wizard of America's Ku Klux Klan. The Iranian president, Mahmoud Ahmadinejad, addressed the meeting and repeated his statement that the “Zionist regime” would soon disappear. See article

Fears grew that the **Palestinians'** volatile mix of political and clan feuds could ignite an internecine conflict in Gaza. Gunmen shot dead a judge affiliated to Hamas, the ruling Islamist movement, two days after the killing of three young sons of a senior official of Fatah, the rival secular group.

Prince Turki al-Faisal, a long-time former head of the **Saudi** intelligence service, resigned abruptly as ambassador to the United States, prompting speculation that, among other possibilities, he might replace his ailing brother, Prince Saud al-Faisal, as foreign minister.

Islamist leaders who control **Somalia's** capital, Mogadishu, and most of the southern and central parts of the country, said they would soon launch a “major attack” against Ethiopian soldiers who have been massing in the west.

A court in **Ethiopia** decided that Mengistu Haile Mariam, a Marxist dictator who ruled ruthlessly for 17 years until 1991, was guilty of genocide. Over 70 people were convicted with him, in a trial lasting 12 years. He was tried in absentia.

At arm's length

AFP

General Augusto Pinochet, who ruled Chile from 1973-90 and who came to personify an era of brutal military dictatorship in South America, died of complications from a heart attack. His funeral took place at a military academy; there was no official mourning. See article

The outgoing United States Congress offered a crumb of comfort to four **Andean countries** on trade, renewing existing preferences for six months. Before ratifying free-trade agreements with Peru and Colombia, leaders of the new Democratic-controlled Congress have said they want extra labour-rights provisions attached to them.

Canada's Parliament rejected by 175 votes to 123 a motion by the Conservative minority government that would have allowed legislation to ban gay marriage.

The **Arctic** could see the complete disappearance of all-year-round ice in a few decades, American scientists have said. Data presented to the American Geophysical Union showed that ice was recovering poorly from the summer melt.

Remember him?

The ethics committee of America's House of Representatives issued its findings on the **Mark Foley** scandal. The report criticised Republicans in the chamber for failing to “exercise appropriate diligence”, but did not single out any individual for disciplinary action. Mr Foley's resignation, over his lurid contacts with teenage pages in Congress, was no help to the Republicans during the recent mid-term elections.

The **Democrats** completed their rout of the Republicans in the mid-term elections by defeating a seven-term congressman in a run-off election in a Texas district. Meanwhile, William Jefferson, a congressman who is being investigated for bribery, won his run-off election in New Orleans.

Must try harder

Ahead of a European Union summit, EU foreign ministers agreed to suspend a large part of **Turkey's** membership negotiations. This is punishment for Turkey's failure to fulfil its obligation to open its ports and airports to (Greek) Cyprus. The Turks fumed about injustice, noting that the Europeans had not fulfilled on their promise to lift a trade embargo on northern Cyprus. See article

Investigations into the **Litvinenko affair** continued to broaden. British and Russian detectives interviewed two Russians who met Alexander Litvinenko on the day he died. Traces of polonium, the substance used to kill the former Russian agent, were found to have contaminated four people in Hamburg. See article

Voters in **Nagorno-Karabakh**, an Armenian enclave within Azerbaijan, opted overwhelmingly for a constitution declaring their own sovereignty. But Azerbaijan continues to reject any notion of independence.

Transdniestria, a breakaway part of Moldova that is backed by Russia, re-elected its “president” to a fourth term.

Scolding averted

In mayoral elections in **Taiwan**'s biggest cities, Kaohsiung and Taipei, voters failed to give the stinging rebuke many expected to the Democratic Progressive Party (DPP) of President Chen Shui-bian. Although the DPP's candidate lost the mayorship of Taipei to the opposition Kuomintang, the ruling party narrowly held on to Kaohsiung.

Reuters

The electorate in the Indonesian province of **Aceh** had its first chance to vote directly for a governor and other officials. It was a landmark in the effort to bring an end to 29 years of secessionist war. Polls suggested that former independence activists had done well. See article

In **Bangladesh**, the president, Iajuddin Ahmed, who is also head of a caretaker government, ordered the army on to the streets of Dhaka and other cities to keep order ahead of elections due next month. Four members of his administration resigned in protest.

America's Congress passed legislation allowing **nuclear co-operation with India**. The governments in Delhi and Washington, DC, declared it a great day for bilateral relations. But India's main opposition party continued to object, as did its Communists and some nuclear scientists. See article

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Business this week

Dec 13th 2006
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The chairman of **Gazprom** said that the Russian state gas monopoly planned to buy around 50% of Sakhalin II, confirmation that **Royal Dutch Shell** had bowed to pressure by ceding control of the energy project in Russia's far east. The decision had looked inevitable once Russian authorities began to challenge the LNG and oil project in September on environmental grounds. Many analysts saw that as a means to help Gazprom force its way into the venture, demonstrating how determined the Kremlin is to secure state control of energy investments in Russia. See article

Politics and markets, cont'd

DP World, a company that is backed by the Dubai government, sold the **American port assets** it had tentatively acquired through its takeover of P&O to **AIG Global Investment**, a unit of the world's biggest insurer. Earlier this year the news that DP World was to manage operations in several big American ports sparked a political backlash over security—even though Dubai is an ally of the United States—and when the P&O deal was threatened, DP World volunteered to find an American buyer. The new owner has little experience of port operations.

The gloves came off in the bidding war for **Corus**, an Anglo-Dutch steelmaker. **CSN**, a steel company based in Brazil, made a formal bid of £4.9 billion ($9.6 billion), trumping a sweetened offer from India's **Tata Steel** that had been made just hours earlier.

Freeport-McMoRan's $26 billion proposed takeover of **Phelps Dodge** was dealt a blow when it emerged that **SAC Capital**, a hedge fund managed by billionaire investor Steven Cohen, had increased its stake in Phelps Dodge to more than 5% with the aim of blocking the deal. The combination of Freeport and Phelps would create the world's biggest copper miner, but SAC claims it would not be good for shareholder value.

In the biggest-ever acquisition in the Philippines, **Mirant**, an American power company based in Atlanta, sold its assets in the South-East Asian country to **Tokyo Electric Power**, Asia's biggest utility, and **Marubeni**, a Japanese conglomerate, for $3.4 billion.

Hewlett-Packard agreed to pay $14.5m to settle a civil case brought against it by California over the boardroom spying scandal that rocked the company in the autumn. Patricia Dunn, HP's former chairman, and four others have been indicted on charges stemming from the methods used to uncover the source of a boardroom leak and pleaded not guilty. Other federal agencies, including the Securities and Exchange Commission, are still probing.

Running out of superlatives

Goldman Sachs kicked off what is expected to be another stellar earnings season on Wall Street. The investment firm's net profit for the quarter ending November 24th rose by 93% compared with a year ago, to $3.15 billion, setting yet another Wall Street record.

NASDAQ formally launched its unsolicited £2.7 billion ($5.3 billion) bid for the **London Stock Exchange** and in the process lowered the level of the percentage of LSE shareholders that are required to agree to the offer. As it owns a stake of almost 29%, NASDAQ is now seeking the approval of just over a fifth of the LSE's other investors. They have until January 11th to decide.

A bid of A$10.9 billion ($8.6 billion) was formally made for **Qantas Airways** from a buy-out consortium. The Australian airline rejected the offer, but a deal is not off the table yet. The consortium has soothed Australians' worries about the takeover of their iconic carrier by keeping within the foreign-ownership limits set by the government; Australia's Macquarie Bank is leading the bid. Separately, speculation

mounted that **United Airlines** and **Continental** were discussing a merger, more proof that consolidation in the airline industry may be about to take off.

Sabre Holdings, the parent company of **Travelocity.com**, a travel reservations website, agreed to a buy-out valued at some $5 billion from two **private-equity** firms.

Britain's Office of Fair Trading referred **BAA** to regulators because its “current structure” prevents cost savings being passed on to customers. The British airports operator, owned by a Spanish construction firm, has been criticised for its plans for Heathrow and its landing-slot charges.

A sure topic for conversation

America's **trade deficit** in goods dropped in October to $65.1 billion, its lowest level since August 2005, reflecting a sharp fall in the price of oil. However, the deficit with China continued to grow and hit $24.4 billion. The news came as a high-level delegation, led by Hank Paulson, the treasury secretary, and Ben Bernanke, chairman of the Federal Reserve, prepared to visit Beijing for talks on trade.

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Vladimir Putin's Russia

Don't mess with Russia

Dec 13th 2006
From The Economist print edition

Russia's habitual abuse of its energy muscle is bad for its citizens, its neighbourhood and the world

Get article background

FOR over a decade Royal Dutch Shell, along with its Japanese partners, Mitsui and Mitsubishi, has been struggling to coax oil and gas out of the frozen seas off Sakhalin Island, in Russia's far east. Over the years the scheme has run into environmental protests, its projected cost has doubled to $20 billion and its completion date has receded. But it is now nearly finished. With oil and gas prices high and a flood of revenue imminent, it is an odd time for the three owners to reduce their shareholding. Yet that is exactly what they offered to do this week, by selling a majority stake in the project to Gazprom, Russia's state-owned gas giant (see article).

Gazprom's masters in the Kremlin have made no bones of their desire to keep big energy projects in the family, so to speak. Russian officials had been making life difficult for the Sakhalin project by threatening dire consequences for minor environmental lapses. The shareholders, perhaps mindful of the fate of Yukos, a big Russian oil firm bankrupted by over-zealous tax inspectors, presumably concluded that Gazprom was making them an offer they could not refuse.

Neighbourhood bully

When it comes to energy, Vladimir Putin's Russia seems prone to loutish behaviour—despite constant claims that Russia is a reliable partner. In addition to mugging Yukos, it has often intimidated its neighbours with threats to cut off their oil or gas supplies. Earlier this year, when Lithuania had the temerity to sell an oil refinery to a Polish firm instead of a Russian one, the pipeline that supplies the refinery with Russian oil suddenly succumbed to a mysterious technical fault. Last winter Gazprom appeared to blackmail Ukraine's new pro-Western government by cutting off the country's gas amid a dispute over prices. The episode sent a chill throughout Europe, which relies on Gazprom for about a quarter of its gas. Japan, the future recipient of most of the gas from Sakhalin, will now also find itself at Gazprom's mercy.

Russia's government, of course, is not the only one to try to grab a bigger share of the takings as oil and gas prices go up. Britain recently raised taxes on production from the North Sea. And Russia has a strong

incentive to rewrite the rules, since it agreed to generous terms for projects like Sakhalin back in the 1990s, when it had no money to develop its resources itself and was desperate to attract foreign investment. But its brutish behaviour will probably backfire. The next time the oil price falls or money runs short, it might end up having to offer even more munificent terms to lure the oilmen back. Russia risks scaring off investors of all stripes, as well as potential customers for its oil and gas.

Moreover, Russia still needs the expertise of foreign firms. Gazprom and its state-controlled counterpart in the oil business, Rosneft, are hopeless at increasing their output—except by buying up other firms' assets on the cheap. So the Russian state's insistence on developing its oil and gas by itself is not just bad news for the shareholders of Shell, Mitsubishi and Mitsui. It is also bad news for ordinary Russians, who will not see as much oil wealth as they otherwise might.

What explains these self-defeating tactics? Mainly Mr Putin's belief that energy is a weapon with which to restore the lost greatness of the Soviet Union. No longer need Russia go to the West cap-in-hand for money, as it did in Boris Yeltsin's day. Now it can stand tall once more, not least in the neighbouring ex-Soviet countries that many in Moscow have never reconciled themselves to losing. Whenever these places seem to look to the West, still more aspire to join such Western clubs as NATO or the European Union, the Russians have reacted petulantly, as they did earlier this year by imposing trade embargoes on Georgia and Moldova.

From Russia with polonium

Mr Putin's use of energy as a weapon is only one instance of a Russian assertiveness that nowadays seems to border on gangsterism. Perhaps the most spectacular recent example is the murder in London of a former Russian agent, Alexander Litvinenko. Though it is not clear whether the Kremlin ordered the killing, that this even seems possible says something about the internal state of Russia (see article). With the parliament largely emasculated, television under state control, the press muzzled and once-autonomous regions shackled, the presidency has acquired enormous clout. It is increasingly the Kremlin that decides who runs Russian business and finance. Although an election is due in March 2008, Mr Putin will in practice choose his own successor.

Such authoritarianism, like the muscular use of energy, is driven partly by weakness. Russia's army is chaotic, its population is shrinking and its economy is dangerously dependent on natural resources. That is why Mr Putin is so keen to keep a firm grip on power at home; it is also why he is so anxious to keep Russia's seat at the top table, not just in the UN Security Council but also the G8 club of rich countries.

If Russia continues on this course—and especially if Mr Putin meddles with the constitution to grab a third term—it does not deserve to stay in the G8. But it is also worth noting that Russians, Russia's put-upon neighbours and the shareholders in the Sakhalin project are not the only people who stand to suffer as a result of the Russian economy and political system being mismanaged this way. The Russian state's insistence on developing its oil and gas by itself is bad news for almost anyone in the world who consumes power or fuel.

In the early part of the decade new production from the former Soviet Union accounted for most of the growth in the world's supply of oil and gas. But when Mr Putin began his campaign to take control of Russia's resources, that growth stalled, just as China's demand for energy was taking off. The present high prices for oil and gas are the result. With exploration prospects drying up in much of the Western world, and with the countries of the Organisation of the Petroleum Exporting Countries unwilling to open the taps, Russia is one of the few countries that could produce more oil—if only Mr Putin changed his thuggish ways.

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Augusto Pinochet

The passing of a tyrant

Dec 13th 2006
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No ifs or buts. Whatever the general did for the economy, he was a bad man

AP

Get article background

HIS was not the bloodiest of the military dictatorships that afflicted South America in the 1970s. That accolade belonged to the Argentine junta. Nor was it the longest-lasting: Alfredo Stroessner misgoverned Paraguay for 35 years and Brazil's collegial military regime lasted for 21. But General Augusto Pinochet, who ruled Chile from 1973 to 1990 and who died last weekend, was the most brutally successful of the dictators. He presided over a viciously effective police state and came to personify a whole era of bloody despotism during the latter stages of the cold war (see article).

The left abhorred him not only because of his brutality but because he overthrew the elected Marxist government of Salvador Allende. The coup in 1973, which had the backing of the United States, ended a democratic tradition in Chile that stretched back to the 1930s. For his defenders both at home and abroad—who not long ago were numerous—he was the saviour of his country. They argue that he rescued Chile from communism and went on to turn it into the fastest-growing economy in Latin America by applying free-market policies that would be imitated in eastern Europe and Asia. General Pinochet hoped that a record of economic success, not just intimidation, would enable him to win a referendum in 1988 and remain in power. Chileans voted instead to restore democracy, by 56% to 43%. The general stayed on as army commander, casting an overbearing shadow. He was finally brought to book, if not quite to trial, thanks to a Spanish judge, Britain's House of Lords and the courts in Chile.

The Pinochet story raises two uncomfortable questions for liberals. If the coup did indeed rescue Chile from an elected government that was Marxist-dominated—and thus anti-democratic—was it justified? The answer is no. The Allende government generated economic chaos and extreme political tension and would probably have imploded. But the intention of the junta was to crush democracy, not just communism.

The second uncomfortable question is whether Chile's subsequent economic success was possible only because of dictatorship. Like most Latin American dictators, General Pinochet was instinctively an economic nationalist. But he saw the “Chicago Boys”, a group of free-market economists, as a means to consolidate his personal dictatorship. The radical shrinking of Allende's bloated state was a way to avoid sharing patronage, and thus power, with the armed forces.

With Chileans cowed, the Chicago Boys could work as if in a laboratory, with no regard for social costs.

They made mistakes: a fixed exchange rate and unregulated bank privatisations triggered a massive recession and financial collapse in 1982-83. More pragmatic policies and a renewal of growth followed. But it took the return of democracy in 1990, with its ability to bestow legitimacy, to create an investment-led boom and a large fall in poverty. Elsewhere in Latin America, free-market reforms were enacted by democracies.

When economic and political liberty are divorced

Most dictators are economic bunglers. A few get the economy right, as Spain's Franco did after 1958. But in the long run (as China is likely to discover) economic liberty seldom thrives in the absence of political liberty. And General Pinochet's claim to have stood selflessly for the former was tarnished when it emerged that he had amassed a fortune incommensurate with his salary. Even if history bothers to remember that he privatised the pension system, that should not wipe away the memory of the torture, the “disappeared” and the bodies dumped at sea. His defenders—who include Britain's Lady Thatcher—really should know better.

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Turkey and Europe

The blackballers' club

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The European Union seems not to want a reformed, modernised Turkey

Getty Images

THERE'S a familiar pattern in Turkey's efforts to join the European Union. Every few months a row blows up about something, usually over Cyprus. A crisis summit is called, a deal is done, nobody is happy—but nobody storms out. Life continues until the next row erupts.

This week things went much as expected. The European Commission proposed suspending part of Turkey's membership talks, to punish it for failing to open its ports and airports to Cyprus. Foreign ministers duly agreed to freeze almost one-quarter of the negotiations, which they deem enough to please hardliners but not so much that the talks collapse (see article).

Yet the mood has turned unusually bad. The Turks are angry, the Europeans unbending, and it is hard to see how the talks can ever be unfrozen. For the row is not really over Cyprus but over growing doubts about whether Europe really wants Turkey to join the club.

The relationship between Turkey and the EU is always edgy, a little like Mexico's with the United States. Turkey is big, poor, borders on the EU and is a potential source of many migrants. Its strategic significance is obvious. It abuts Iraq, Syria, Iran and the Caucasus; it has a big army (the second-biggest in NATO); in an era of energy insecurity its network of oil and gas pipelines is increasingly important. Above all, it is a rare example of a mainly Muslim country with a thriving, secular democracy and a liberal, free-market economy. The West's failure to promote liberal democracy in the Middle East makes it all the more pressing to support the only democratic Muslim country in the neighbourhood.

Yet Europe has not always been supportive. Turkey signed an association agreement with the then EEC as far back as 1963 that prefigured eventual membership. But its size, poverty, political and economic instability, history of military coups and record of human-rights abuses all ensured that for years the question of membership was theoretical. Only in 1999 was Turkey recognised as an official candidate. And only since the mildly Islamist AK party came to power in 2002 has Turkey really begun to make membership seem plausible.

In the past four years the AK prime minister, Recep Tayyip Erdogan, has proved a forceful and effective reformer, tackling the economy, constitutional and judicial change, civilian control of the army and improved rights for Kurds. Turkey's reforms now match or exceed those carried out by many central European countries that have joined the EU. They were rightly deemed sufficient for European heads of

government to decide to offer Turks membership talks, which duly began in October 2005. Nobody expected the process to be quick: at the earliest, Turkey will not join for another ten years.

Even so, since October 2005 relations have gone downhill fast. Some of the fault lies on the Turkish side: its reforms have slowed, prosecutions of writers for insulting Turkishness have continued, renewed fighting has broken out with Kurds and a new mood of nationalism has taken hold. In the run-up to presidential and parliamentary elections next year, Mr Erdogan would do well to avoid fanning that mood.

But the bigger problems lie on the European side. The arrival of a Christian Democratic chancellor in Germany and the prospect of a new president in France will cost Turkey two key supporters. The reluctance of voters—in Austria, France and Germany in particular—to see Turkey as a full member is helping slow reforms and revive nationalism: many Turks are unwilling to change to please Europeans who don't want them in their club anyway. The negotiations frozen this week can be reopened only with the unanimous approval of existing members: that gives Turkey's hardline opponents a veto.

Bad reason for a breach

The row about Cyprus is pretty typical. Turkey certainly has a legal obligation to open trade links with the (Greek-Cypriot) republic. However, the EU promised to end its embargo of the north when the UN's unification plan for the island was accepted by the Turkish-Cypriots but rejected by the Greek-Cypriots in April 2004. Since Cyprus has a veto over that decision, the embargo has stuck.

The Europeans should now be pressing the Greek-Cypriots to give way over the embargo. Freezing part of the negotiations with Turkey will not help solve that dispute. It would be a catastrophic geostrategic failure if Europe and the West were to turn away Turkey, the exemplar of Muslim democracy, because of a small, bolshy Mediterranean island.

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Financial centres

Think local

Dec 13th 2006
From The Economist print edition

Dubai's dream of creating a global financial hub needs some local magic

SINCE dealers first gathered in the fug of London's coffee houses and under the fabled buttonwood tree in lower Manhattan, the world's great financial centres have built their capital markets and reputations over centuries, one trade at a time. Now along comes an upstart (perched on a tiny patch of Middle Eastern desert, no less) daring to suggest it wants to join them almost overnight. That is the vision of Dubai, a thriving emirate on the edge of the Persian Gulf that aims to create a world-class capital market. Ruled by a wealthy and ambitious family, the al-Maktoums, it makes no secret of its wish to become the main financial centre between Europe and Asia.

Dubai and its rulers are not alone. As emerging markets have boomed and capital has become more mobile, a growing number of governments around the world have begun to cultivate a desire to create their own financial centres. Even Khartoum, a few hundred kilometres up the road from war-torn Darfur, is spending its oil bounty on glittering skyscrapers and new technology. Yet it takes more than a dream and government largesse to succeed as a financial hub. Dubai and its imitators need to remember that the market is built not just on subsidies that attract foreigners, but markets that attract locals.

Dubai has done a lot right. Despite a tarnished past as a centre for money laundering, it has burnished its image so as to attract big investment banks and other financiers in the past year. Just a few weeks ago Carlyle, a large private-equity firm, announced that it would open shop there. Building on its transport links and a pleasant quality of life, Dubai has created a sparkling new financial centre that offers international-quality regulations enforced by imported regulators, a Western legal code, oodles of subsidies and refreshingly little red tape.

Dealing in the desert

Yet in spite of this and the sea of petrodollars sloshing around the Middle East, Dubai is only halfway towards its ambition (see article). Its new stock exchange is struggling, with thin trading and few listings. The banks that blew in with the tide of global capital are impatiently muttering about embarking for the next port. Something is still missing.

To win a place in the top club of financial centres, Dubai must attract not just providers of capital but users, too. The bankers need companies that want to sell their shares and bonds in the region; fund managers want local companies to invest in; and private-equity partners need a pipeline of enticing ventures and the prospect of listing their companies after a few years. Dubai has sought to profit from the unprecedented mobility of markets, but without local demand for capital, that same mobility will start to count against it.

The trouble is that few local companies are ready for Dubai's capital markets. The Arab world includes plenty of sophisticated large investors but few modern companies. Long ago, the region's failure to develop joint-stock companies was one reason why it fell behind the West. Even today, financial transparency is weak and accounting is erratic. Most enterprises are family owned and, since they operate in protected markets, have no great need to raise capital, especially if it means exposing themselves to greater scrutiny.

The joint-stock revolution

This is not unique to the Gulf: the developing world is full of companies that are shielded from competitive markets—so other budding financial centres will have the same problem. But in Dubai the challenge of finding modern companies to invest in is complicated, ironically, by all that oil wealth, which means there is plenty of traditional bank credit for all sorts of Middle Eastern businesses. To make matters worse, local stockmarkets are still shaky after a crash earlier this year.

Two measures might help. The government should use its new capital markets to raise money for its own, highly successful enterprises such as Etisalat, its telecoms provider, and Emirates, its airline. It hardly seems a vote of confidence that apart from the occasional *sukuk*—an Islamic bond—they have tended to stay away. It should also look to promote governance and fair accounting at home and across the region. This is a tall order, but it is important because oil prices will not forever guarantee that capital is in such generous supply. The risk is that Middle Eastern companies will discover the merit of turning to the capital markets at precisely the moment when the door starts to close on them. Dubai's financial centre would do most service to the Middle East as a regional source of cheap capital and a spur to good governance.

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Monoglot Britain

God's worst linguists

Dec 13th 2006
From The Economist print edition

If the world is learning English, why on earth should the British learn the world's languages?

THE trouble with Johnny Foreigner, as the British have long remarked, is that he can't understand you. But the trouble with the British is that they can't learn his language: most of them simply cannot get the hang of all those conjugations and gerundives and adjectives that have to agree with nouns. Now, as luck would have it, the whole world seems to be learning English. Problem solved. Moreover, the British government seems to agree. Two years ago it decided to drop the requirement that all British 14-16-year-olds should study at least one foreign language. Of course, the numbers doing so went into free-fall, leading to a twinge of official concern; but a committee of inquiry is likely to advise this week that there can be no going back (see article). Brainy Britons may master several tongues; the others will continue to converse with the rest of mankind in God's own language, English.

The advantages of being able to speak more than one tongue are so obvious that they scarcely need spelling out. Despite globalisation, not everyone everywhere yet speaks English, so fluency in a second language would enable monoglot Britons to talk to many more people than they can at present. They could conduct business with fewer misunderstandings. They would have fewer surprises in restaurants when they discovered they had inadvertently ordered brains in black butter or a portion of potted intestine. When confused on holiday they would understand what was meant by the *syndicat d'initiative* (tourist office), the *Krankenhaus* (hospital) or, most mysteriously, the *вокза́л* (or “Vauxhall”, railway station).

The possibilities are limitless. Vacant negotiators would at last be privy to the meaning of the overheard asides uttered by their foreign counterparts before deals or treaties were closed. British footballers who play for foreign teams might, if they were not completely inarticulate in any language, be able to give interviews in the local tongue after the match. Journalists covering atrocities in darkest Africa and seeking the quotes so prized by editors back home might not have to ask, “Anyone here been raped and speak English?” And the benefits do not end with the practical. The British might even, conceivably, open their minds to foreign cultures, extract new joys from Schubert's *Lieder*, tackle Proust in the original, get stuck into Dante or saddle up with that quixotic man of La Mancha.

Unfortunately, however, forcing children to learn a language does not ensure success. If you doubt this, just stop a passer-by in Japan, where English is universally taught, and in that language ask the way. Moreover, a mastery of languages is not the only accomplishment that every child might like to have when leaving school, or even the only one that society might like to bestow upon those it tries to educate. Physics and chemistry are similarly going out of fashion in Britain, and who is to gainsay the

value of knowing the laws of thermodynamics and the place of polonium in the periodic table? A little knowledge of history would be enormously beneficial, especially to would-be politicians who believe they can sort out Afghanistan or the Middle East with a simple invasion or two.

And media studies, too

Others would benefit hugely if they left school able to carry out some basic plumbing, or to fix their computer, or merely to fill in a tax return or benefits form. And then there are the more traditional attributes of a decent education, such as judgment, manners, elementary morals, the ability to get on with other people, the capacity to recite from memory a small anthology of English verse, and the ability to think and to express oneself—in English, for a start. Some might add a respectable grounding in Latin and Greek, a stern respect for the injunction never to play a cross bat to a straight ball at cricket, and the ability to flick an ink pellet of well-judged saturation.

Yes, the British should learn languages, and they are easier to acquire when young. But be realistic. Make knowledge of at least one foreign tongue mandatory for university—and be ready to change policy if Chinese starts sweeping the world.

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On buy-outs and mergers, India's economy, Los Angeles, Milton Friedman, chastity, coffee

Dec 13th 2006
From The Economist print edition

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Waiting for the bust

SIR – I wish I shared your sanguine view of the current mania for mergers and leveraged buy-outs that has gripped global markets ("Down on the street", November 25th). There is little to differentiate this boom from previous ones and the fact that companies are being bought for "cash" is neither here nor there. The cash is raised by issuing debt, which is potentially even more pernicious than an exchange of one overvalued share for another: debt remains outstanding whereas equity values can be written down. As for cheap credit, its recent abundance has been driven by a perception of few company defaults, but the low-default rate is due to plenty of cheap credit that sustains firms. Let us just hope this credit will be available when the bubble bursts. Ultimately, firms that have been taken private will have to turn to public markets, which may not be as receptive to buying them back as they were willing to sell them.

Abdallah Rahall
London

India's economy

SIR – I was surprised that when you dismissed my estimate that investment in India is in the range of 38-42% of GDP, you argued that "unless saving has also surged...an investment rate of 40% would imply a current-account deficit of 10% of GDP" ("Too hot to handle", November 25th). Implicit in your conclusion is the assumption that the savings rate cannot increase significantly, so all the extra investment has to come from foreign savings. But this assumption may be invalid if the economy is going through structural change.

Between 2000 and 2004 India's savings rate increased from 24% of GDP to 29%. Rear-window economics works most of the time, hence its popularity. By definition, such reasoning breaks down when an economy undergoes a structural shift. In the not so distant future we shall find out whether *The Economist* was wrongly practising rear-window economics, or I was being too optimistic.

Surjit Bhalla
Principal, Oxus Investments
Delhi

Road rage

SIR – Another reason why the subway system in Los Angeles won't be expanded is that the public prefers to drive ("Pipe dreams", November 25th). Around 5% of people in the area use public transport, and another multi-billion dollar subway project won't move that percentage appreciably. People don't want to lower their standard of living by taking transport that doesn't go where or when they want. They do want money spent on eliminating grossly wasteful traffic jams in the region, which politicians have adamantly refused to address.

Carl Olson
Woodland Hills, California

Shortcomings

SIR – A giant among economists he undoubtedly was, but you let Milton Friedman off the hook too lightly by describing Augusto Pinochet as his "most controversial listener" ("A heavyweight champ, at five foot two", November 25th). By 1975, when Mr Friedman visited Chile, the entire free world was aware of the nature of Pinochet's regime and its repertoire of state-sponsored abductions, murder and torture. Nevertheless, he chose to spend several days in Chile, meet General Pinochet personally and write to him afterwards. Sadly, on a personal level at least, sometimes you have to judge a man by the company he keeps.

Robert Jones
Barcelona

SIR – Although I am now retired, I always made sure that I exposed my students to the ideas of Mr Friedman when I was a college professor of economics. Unfortunately, he had a narrow view of how monopolies come about and seemed to argue that they are only created by governments that hand out licences or quotas or some other type of market-entry restriction. Nothing could be further from the truth. As demand thresholds increase and firms enlarge through mergers and acquisitions to enjoy economies of scale and dominate global markets, the monopolisation of markets is obvious. Indeed, the real test for 21st century capitalism will be what to do with the global phenomenon of giant corporations with vast profits, higher executive compensation and the ever-increasing unequal distribution of income. In this regard, there will be a role for government and one that Professor Friedman missed.

David Enns
Cornwall, Canada

The dating game

SIR – I found your article on the fashion for purity in America to be, well, quaint ("In praise of chastity", November 18th). As an evangelical Christian man who, in keeping with his religious convictions, has remained chaste before marriage into his 40s, my experience with women, including Christian women, has been that they care not one jot about pairing with a spouse who is chaste. In fact, I have had a few instances where a chaste woman actually preferred a fellow to have a résumé, especially if he was a little older. It does not mean that an otherwise attractive buck-a-roo is taken out of the rodeo, but being chaste does not appear to move one from the runner-up category to the leader board. Christian guys go down in flames in the proverbial dating dogfight. Until women really care about their partner being chaste and use it as a criterion to select a spouse, the concept of chastity will remain drivel, fantasy and wishful thinking.

Scott
Fairfax, Virginia

Coffee circle

SIR – Your article on Ethiopia's conflict with Starbucks challenged the motivations behind the Ethiopian government's initiative to trademark its coffee brands ("Storm in a coffee cup", December 2nd). You did this with an air of great certainty, pointing out that Ethiopia ranks horribly low on indices of investment climate and corruption. However, the indices to which you refer are constructed largely on the basis of surveys of perceptions of investors and consultants, that is, of readers of publications like *The Economist*. Think about it: you tell your readers the government is up to no good, your readers then tell Transparency International that the government is up to no good, and you, in turn, use that "evidence" to support your argument that the government, indeed, is up to no good. Ethiopia's government may or may not have benign intentions, but your argument would be more compelling were it less circular.

Ken Shadlen
Lecturer in development studies
London School of Economics
London

SIR – As a Starbucks *barista*, I was pleased to read your even-handed treatment of the Ethiopian trademarking controversy. Anyone who studies the way Starbucks buys its coffee (which is required of all employees) knows that it lives up to its goal of "contributing positively to our community and our environment". But you made one error. At Starbucks the wetness of a drink refers to its proportion of foam to steamed milk. A latte is almost entirely steamed milk with only a dollop of foam. Thus, your "grande extra-wet triple-latte" is actually a triple grande no-foam latte.

Steven Crawford
Tucson, Arizona

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The Litvinenko affair

Murder most opaque

Dec 13th 2006 | MOSCOW
From The Economist print edition

What a poisoned Russian agent tells us about the way that Russia is governed

THE flamboyant Russian community in London has until recently been regarded by the city's natives with wry amusement. The tycoons and tax refugees at its centre have boosted the price of high-end property, imported expensive soccer players along with their befurred wives and provided useful fodder for gossip columnists. Then Alexander Litvinenko was poisoned.

Never in his life was Litvinenko as important as he has become in death. He was not really a spy, as he has been described, but worked for domestic units of the FSB, one of the KGB's post-Soviet successors. He has been labelled a defector; but few people took the information he brought out of Russia when he fled to Britain seriously. He had always been a pawn in other people's power struggles, and even as a pawn his utility was declining.

Litvinenko fell ill in London on November 1st. Just after his agonising death, under police guard, on November 23rd, the poison that killed him was identified as radioactive polonium. By the time he was buried in Highgate Cemetery last week in a specially sealed coffin, Londoners understood that the dissidents and playboys spewed out by post-Soviet Russia had imported other things too: intrigue, shady pasts and grudges pursued with reckless brutality. And it had become clear that the rest of the world could no longer complacently regard Russia's violent internecine politics as a worry for Russians alone.

On November 1st Litvinenko met Mario Scaramella, an Italian muckraker who has investigated the KGB's activities in Italy, at a Piccadilly sushi bar. But it now looks as though the meeting that led to his death was with two or more visiting ex-KGB Russians at a posh hotel in Mayfair. A number of staff at the hotel bar have shown traces of radiation. So have rooms at several establishments in which the visiting Russians stayed, and the aeroplanes on which they flew between London and Russia, as well as part of the British embassy in Moscow, which the Russians attended to explain themselves.

The German police this week revealed that Dmitri Kovtun, one of the hotel attendees, had apparently spread radiation across various sites in Hamburg before meeting Litvinenko that day. Both he and his associate, Andrei Lugovoi, who saw Litvinenko on several occasions in the month before he fell ill (as well as on November 1st itself), have now been interviewed by the British detectives from Scotland Yard who flew to Moscow last week to pursue their murder inquiries. Or rather, they have been interviewed by Russian officials with the British policemen in attendance. German prosecutors also want to speak to Mr Kovtun. Both he and Mr Lugovoi protest their innocence.

The police may soon identify who administered the poison. Even so, the motive may prove inscrutable. It happened in London, but

Litvinenko's death was almost certainly a Russian crime, and in Russia the most dramatic and public outrages—the Beslan school siege in 2004, for example—tend to remain opaque, seized as opportunities for propaganda but never properly explained.

In the case of Beslan, Vladimir Putin, Russia's president, immediately blamed the atrocity on outside forces bent on weakening his country. Yet elementary questions about what happened at the school remain unanswered. The Litvinenko affair involves a mix of dubious characters in several countries, some of whom may be either accomplices or escaped co-targets or the stooges in frame-ups. As well as a variety of explanations, the crime has set off an orgy of conspiracy theories, some of them opportunistic calumnies and intentional disinformation.

The immediate suspicion of many in London—including Litvinenko, according to a statement supposedly made on his deathbed—was that the Kremlin killed him, using either the FSB or another of Russia's security agencies (such agencies, under a variety of names, have been tailing Russian dissidents in London since before the Bolshevik revolution). The Kremlin and others in Russia angrily attribute this assumption to anachronistic cold-war stereotypes. But the fact that people jumped to this conclusion says much about the image created by Mr Putin's capricious seven-year presidency.

Nor is it an entirely outlandish view. Many in the FSB reviled Litvinenko: some are rumoured to have used his image as a target on their shooting ranges. Before and after leaving Russia in 2000, Litvinenko accused his erstwhile colleagues—and Mr Putin, the agency's former boss—of horrific crimes. His key allegation (and not his alone) was that the FSB orchestrated the spate of mysterious bombings of Russian apartment blocks in 1999, which killed about 300 people and were officially blamed on Chechen terrorists. The blasts contributed to the eruption of a new Chechen war, which in turn helped to secure Mr Putin's election as president in 2000.

For many of Mr Putin's critics, the apartment bombings are the original sin of his presidency, an extreme encapsulation of a pattern that includes the ruthless accumulation of power and the supremacy of power over law. The charge is denied, of course, but it is undeniable that several journalists, parliamentarians and policemen who have investigated the bombings have either met unexplained deaths or gone to prison.

Some see Litvinenko's death as part of a sequence of recent murders that included the contract killing in October of Anna Politkovskaya, a crusading journalist who exposed the continuing but now largely forgotten abuse of human rights in Chechnya. Mr Putin at first ignored her murder, then posthumously belittled her work. Others see a link to the poisoning of Viktor Yushchenko during his campaign (against the Kremlin's preferred candidate) for Ukraine's presidency in 2004. That, too, remains unexplained—because, some in Kiev whisper, explaining it would be diplomatically awkward.

A sub-theory is that Litvinenko died not on Mr Putin's direct order, but through a freelance vendetta pursued by current or former security agents. One of the stark contradictions of the Putin years has been that economic growth and spreading wealth have been accompanied by growing lawlessness and insatiable corruption. Across Russia the FSB is said to run assorted rackets, combining patriotism with graft in a way that can seem contradictory to outsiders.

Today's Russia is not the Soviet Union; for all their common personnel, the FSB is not the KGB. But under Mr Putin the *siloviki* (people of power) have been given freer reign than some Russians thought would ever be possible again.

The Kremlin's main explanation for Mr Litvinenko's demise is to blame both it and the Politkovskaya killing on hostile forces bent on discrediting Mr Putin. This version invokes the spectre not of the cold war but of the anarchic presidency of Boris Yeltsin, Mr Putin's predecessor. In particular, it involves Boris Berezovsky, one of the so-called oligarchs who accumulated vast wealth in the frenetic privatisations of the 1990s. He helped bring Mr Putin to power but then fell out with him and fled to London. Britain's refusal to extradite him (along with Akhmed Zakayev, a Chechen separatist with whom Litvinenko fraternised) has infuriated the Russians, contributing to a nasty souring of Anglo-Russian relations.

Litvinenko claimed that, as an FSB officer, he had been ordered to kill Mr Berezovsky (who then helped him financially in Britain). Curiously enough, in one of the case's many odd connections and coincidences, Mr Lugovoi also once worked for Mr Berezovsky. That he or the other bigwig Russians who have taken refuge in London would jeopardise their asylum for the sake of such risky Machiavellianism seems improbable. But the idea was given some credence by the strange incapacitation of Yegor Gaidar, a former Russian prime minister, who thinks he was himself poisoned in Ireland on the day that Litvinenko died. Now recovering, Mr Gaidar—an occasional but friendly critic of Mr Putin—believes his ailment was part of a campaign of anti-Kremlin subterfuge.

There are, naturally, other theories. Several involve the Yukos oil company, whose dismemberment by the state, beginning in 2003, was among the most brazen episodes of Kremlin lawlessness. Mikhail Khodorkovsky, Yukos's ex-boss, stayed in Russia (whereas Mr Berezovsky fled) and is now in a Siberian labour camp. Some Yukos executives still at liberty were, according to one rumour, tipped off by Litvinenko about plots laid against them. Then there is the theory that Litvinenko poisoned himself while hawking the polonium around London to potential buyers, or (so say some in Moscow) had been helping Chechen terrorists to build a “dirty bomb”. Or that he had fallen foul of Russian gangsters.

Another theory mooted in Russia is that the sudden spate of mysterious killings—which has claimed others besides Litvinenko and Politkovskaya—is part of the ongoing power struggle inside the Kremlin, in advance of Mr Putin's putative departure from office in 2008. The aim, it is variously said, is to undermine one or other of his possible successors or somehow to force Mr Putin to stay on, which some who have profited during his presidency would sorely like him to do. Whoever is anointed by Mr Putin as his successor will surely “win” the election in 2008; the real competition, it is argued, is occurring now, between Kremlin factions. This idea sees Litvinenko's murder as a symptom of a basic flaw in Mr Putin's quasi-authoritarian system of government: the transfer of power, as mandated by the constitution, is tricky and perilous.

The polonium itself, with its rarity and trail of irradiated locations (see article) ought to be a telling clue. But it, too, has various possible implications. One is that the choice of a radioactive poison—as opposed to, say, an especially nasty mugging or road accident—was intentionally sensational. On this reading, it was designed to demonstrate the scope of the murderers and to send a hair-raising message to Litvinenko's friends in London, and perhaps also to his perfidious British hosts. Or, according to yet another explanation, to damage Mr Putin's reputation and Russian-Western relations perhaps beyond repair.

Alternatively, whoever chose it may have thought that the exotic radiation involved would have been untraceable, and would leave the police bamboozled, as might have happened had it been deployed in Russia. It seems possible that the actual poisoners did not realise the nature of their weapon. If so, this might account for the sloppy radioactive smears and contamination of third parties.

During a tsar-like televised phone-in with his people in October, Mr Putin made a little-noticed but revealing remark. He was asked, in a periphrastic way, about a tasteless joke he had made in relation to allegations of rape against Moshe Katsav, Israel's president. It was wrong, Mr Putin said, for the issue of women's rights to be used as a weapon in political squabbles. In other words, he assumed that the allegations had an ulterior motive—as they would have had in Russia. This points to the problem at the bottom of Russia's increasingly bitter ties with the West: the Russians' deep conviction that the rest of the world works as Russia does, and that all politics and diplomacy are as cynical and self-interested as Russia's own.

The row over Mr Berezovsky is another example of this way of thinking. Some Russians simply refuse to believe that in Britain extradition cases are decided by the courts, rather than by the government. Likewise, some in the Kremlin were angry that Litvinenko's deathbed accusations managed to penetrate his police guard to be broadcast: they apparently assumed that protection meant arrest.

Try to be nice to the snoopers

The Russians now have a chance to repair their reputation, reassure the world about the security of their nuclear installations (a nagging worry since the Soviet Union's collapse) and prove that law in Russia is more than a political instrument. Russia's qualms at hosting foreign detectives bent on questioning current and former spooks are understandable; any country would feel much the same. But the Russians could, short of compromising state security, offer total co-operation with the British inquiry. Condoleezza Rice, America's secretary of state, urged them this week to do just that.

Both the British and the Russians are trying to appear conciliatory. Yet the co-operation has been tightly circumscribed from the start. As well as being permitted to question their interviewees only via Russian officers, the Scotland Yard detectives seem unlikely to be given access to any serving FSB men. The Russians, meanwhile, have begun their own investigation into Litvinenko's death and what they say is Mr Kovtun's own poisoning, and want to question people in London. That could in theory bolster the British efforts—or it could result in obfuscation, and be used to advance old grievances.

It would not be fair to conclude from any of this that the Kremlin is guilty as charged. But it all amounts to yet another sign that the hopes entertained in the West about Mr Putin when he first took office—that he actually meant what he then said about democracy, and that under his rule Russia could conceivably become a “normal” country—were misplaced. There have been many such signs, from barbarity in the north Caucasus to harassment of foreign oil firms and meddlesome foreign policy. But perhaps none has publicised the murk and cruelty of life in Russia so effectively as the mysterious death of an unimportant man.

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Radioactive toxins

Choose your poison

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From The Economist print edition

Polonium-210 was efficient in its deadly way but needed experts to make it

THE substance that killed Alexander Litvinenko, polonium-210, belongs to a group of radioactive poisons that can be used to kill while leaving the murderer unscathed. The assassin would have been able to carry the toxin in a glass bottle knowing that its radioactivity would be readily absorbed by the vial itself. It cannot pass through skin. Opening the bottle at arm's length would be enough to protect the killer from receiving a deadly dose. Only when the substance is inhaled or swallowed does it become fatal.

This is because the radioactivity emanating from polonium-210 is in the form of highly energetic alpha particles. These interact strongly with matter and so can travel just a centimetre or so in air before being halted in their tracks. Once ingested, the particles dump huge quantities of energy in the body.

Polonium-210 is particularly deadly because it travels easily through the body. Once it has got into the blood, it is distributed so widely that it becomes a whole-body dose of radiation. It kills organs, tissues and cells or else damages them to the extent that they can no longer function. The poisoning is relatively rapid and a millionth of a gram is sufficient to kill. Mr Litvinenko probably received many times this dose.

The isotope does occur in nature but only extremely rarely. However, nuclear reactors generate 100 grams of the substance worldwide each year. It can be bought: it is used in industry to eliminate static electricity generated by such processes as paper rolling, the manufacture of sheet plastics and the spinning of synthetic fibres. But the radioactive material is sealed in small beads as a safety measure before it is sold. These beads could not be inhaled and, if they were swallowed, would pass through the body relatively safely.

A particle accelerator, a machine used by physicists to explore the fundamental building blocks of nature, could have been modified to produce polonium-210, though it would be an inefficient way of making the substance. In whatever way it was done, the poisoning appears to be the work of someone with access to well-equipped scientists.

Mr Litvinenko is thought to be the first person to die from acute polonium-210 poisoning. However, the first chronic case took place half a century ago. Ironically it was Irène Joliot-Curie, the daughter of Marie and Pierre Curie who first isolated polonium in 1898, who was the first to die because of exposure to it. A sealed capsule of polonium exploded in her laboratory and her death from leukaemia a decade later, in 1956, was attributed to the accident.

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Urban planning

The new New York

Dec 13th 2006 | FLUSHING MEADOWS, QUEENS
From The Economist print edition

Corbis

Michael Bloomberg sets out a bold new vision for his city

IN ITS early days New York was a city that looked forward. Its street grid was designed for 1m people at a time when the population barely topped 100,000. Central Park was planned 150 years ago in a swamp nowhere near the heart of Manhattan, which was then still downtown. The subway was built 100 years ago when much of New York was still farmland. But the city lost the vision thing about 50 years ago, as it slipped into what appeared to be an inexorable process of decline.

The best evidence of how much things have improved in New York is the fact that its mayor is again thinking visionary thoughts about the future. Although the city's fortunes started to recover under the strict hand of Mayor Rudy Giuliani in the 1990s, as recently as five years ago—when the terrorists attacked—it was easy to fear the worst for New York. But this week Michael Bloomberg, who succeeded Mr Giuliani soon after those attacks, unveiled a 25-year plan for upgrading the city. If it is implemented, it may have a bigger impact than the city's two greatest builders: Fiorello LaGuardia, mayor in the 1930s and 1940s, who oversaw massive public works programmes and built airports, and Robert Moses, who dominated urban planning in the middle of the 20th century, building roads, bridges and tunnels.

To Mr Bloomberg, New York is competing—especially with London—to be one of the great cities of the 21st century, attracting the increasingly mobile and wealthy global elite. His plan addresses what he sees as the three chief challenges facing the city as it makes that transition. First, he expects New York's population, already at a record high, to grow by around 1m by 2030, to 9m. Second, the city's infrastructure—much of it a century old—is crumbling, and needs to be upgraded. Third, the city must become much greener.

To transform New York into a “sustainable city” Mr Bloomberg has set ten goals, to be monitored by a new Sustainability Advisory Board made up of scientists, scholars, academics, city planners and environmentalists. The goals include a massive increase in affordable housing; the pledge that every New Yorker will live within ten minutes' walk of a public park; and an overhaul of public transport, including a subway extension. Mr Bloomberg wants New York to have the cleanest air of any big city in America and to reduce emissions that contribute to global warming by 30% by 2030. And he wants to open 90% of the surrounding rivers, harbours and bays for recreation by reducing water pollution and preserving natural spaces.

Wisely, Mr Bloomberg left the details of how to implement his vision to another day—probably in March.

It will not be cheap, and cash will have to be found from somewhere. The influence over federal money enjoyed by Senator Chuck Schumer and Representative Charlie Rangel, now that the Democrats rule Congress, will help. So too might a more constructive relationship with the state, if the new governor, Eliot Spitzer, can bring Albany to heel as effectively as he did Wall Street. Happily, the city's bond rating is as good as it has ever been, and the financial alchemists in City Hall last week raised $2 billion to fund a West Side subway extension: a feat that may portend other creative money-raising.

The plan builds on work that Mayor Bloomberg has already put in train. Much of the city has been re-zoned to allow a better mix of offices (again in short supply), industrial activities and housing. Some $4 billion has been committed to finishing a third tunnel to bring water into the city, $1.6 billion to build a badly needed water-filtration plant and $13 billion for the most ambitious school-building upgrade ever. A former landfill, once the world's largest, will soon be the biggest new park to open in a century.

Upgrading the city's power supply, and making it far greener, seems certain to be one crucial battleground. Another hugely controversial issue will be whether, and how, to introduce congestion pricing for vehicles, probably at first in the bottom half of Manhattan. Mr Bloomberg is known to admire London's congestion charge. Having seen off smoking in the city's bars, he ought to be ready for what is perhaps an even greater political challenge. For the moment, he is still hesitating.

In general, though, he is a mayor in a hurry—and not just because, as rumour has it, he is considering a run for the presidency. His goal is to make the implementation of his vision for the city as irreversible as possible; for it is more than likely, after he steps down in 2009, that politics in New York will return to their bad, old, shortsighted ways.

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Rural poverty

A job for all seasons

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From The Economist print edition

Immigrants are increasingly settling down in California's San Joaquin Valley. But they are still poor

IN THE 1930s poor farmers fleeing Oklahoma's Dust Bowl arrived in the San Joaquin Valley. They found a miraculous climate, with reliably warm weather and a good water supply, which made it possible to grow almost anything. The valley is still an ideal place for crops. But, as its run-down towns and shacks attest, conditions for many of its human inhabitants have scarcely improved in the past 70 years.

AFP

Afraid to leave, in case they can't come back

The San Joaquin Valley has been described as “California's Appalachia”, but that label is almost too flattering. The valley is as poor as the federally defined Central Appalachian Region, which comprises the poorest parts of Virginia, West Virginia, Tennessee and Kentucky, and has a higher proportion of households on public assistance. One county is so plagued by unemployment that it pays impoverished families to leave the Central Valley, under a programme called More Opportunity for Viable Employment (MOVE). Some local paupers take the money and head for jobs in the Plains and the Midwest, in a kind of reverse Dust Bowl migration.

Yet by some measures the valley is booming. In 2002 Fresno County alone produced farm commodities worth $2.8 billion, outranking almost half the states. Poor immigrants, particularly the kind who carry forged Social Security cards, still arrive in small towns like Orange Cove and Raisin City looking for work in the fields. Thanks largely to Mexican immigrants and their children, the valley's population, currently about 3.7m, is expected to reach 5m shortly after 2020.

Local farmers have come to depend on this pool of cheap labour. And for decades it was as constant as the sun. There was a crisis in the mid-1960s when the *bracero* programme, which brought temporary workers from Mexico, was halted. Shortly afterwards, César Chávez caused panic when he organised farm workers into a union and, for a brief spell in the mid-1970s, pushed their pay to twice the federal minimum wage. Even so, farmers insist that such problems were not as grave as the one currently facing their industry.

In the past few years a combination of tighter border controls and a vibrant construction industry has meant that fruit-pickers cannot always be found, says Manuel Cunha of the Nisei Farmers' League. In some places pears rotted on trees this summer. Dianne Feinstein, the senior senator from California, has described the labour shortage as a disaster. She is pushing for a change in the law that would allow

illegal immigrant labourers to work their way to legitimacy, so long as they remain employed in agriculture.

When California's farmers say they are facing disaster, they mean that the kind of agriculture practised in the Central Valley is hard to sustain at current wage rates. Farming in the San Joaquin region is labour-intensive. In September 207,000 men and women toiled on farms there—just 13% fewer than during the same month 15 years ago. Although machines can do the job almost as well, about half the valley's raisin crop is still picked by hand, dropped into trays, then flipped on to sheets of paper to dry in the sun.

Though farmers complain that they cannot get labourers at any price, this back-breaking work is hardly lucrative. Since 1993 the average hourly wage of a grape worker during peak harvest season in the San Joaquin Valley has risen from $6.29 to $9.43. That 50% increase is just 10% more than inflation, as measured by the consumer-price index. Wages in retailing rose by 73% nationally in the same period.

Farmers are, however, justified in complaining that tighter borders have transformed the local labour market. Until a few years ago, many Mexicans viewed central California as a higher-wage extension of their own country. They usually came to the valley in summer, rented “back houses”—often simply converted garages and sheds—and returned home in winter, when work became harder to find.

Better policing of the border has created what Philip Martin, an agricultural economist, calls a “sea-wall effect”. Fewer people seem to be reaching central California, but those who do hang around for longer, knowing that if they leave they may not be able to return. For the same reason, they tend to bring their families over. They are more inclined to look for dependable, year-round work, even if it pays little more than fruit picking.

From grapes to bed-sheets

An example of the new breed is Alejandra, a woman who, like many in her situation, prefers not to use her surname. She stole across the Mexican border 15 years ago and picked grapes for a few years before moving on to cleaning hotel rooms, a job she much prefers. Her husband still works in the fields; he also delivers pizzas, despite not having a valid driving licence. They live with their American-born children in an unheated house on Fresno's west side, and haven't been to Mexico for eight years.

Many others like them live nearby, in what is the first-world equivalent of a shanty town. Fresno is not just poor. By one common measure—the number of people below the poverty line who live in areas where more than 40% of the population is also poor—it is the most economically segregated city in America.

The fact that local people are increasingly looking for year-round work is good news for everybody except farm owners. It makes for more stable schools and less economic volatility. Unemployment rates in

Fresno County, which used to soar during the winter and spring (reaching 17% in March, 1999), now rise more gently to lower peaks. The economy is gradually becoming more diverse, thanks in part to the sheer numbers of new inhabitants and their growing needs. Formally at least, education has overtaken crop production to become the biggest industry in Fresno.

For the San Joaquin Valley to prosper, though, its workers will have to settle down in other ways. They may be moving from fields to hotels and restaurant kitchens, but many are still in legal limbo, which makes them disinclined to better themselves through education or training. A casual workforce has been a boon to the valley's traditional agricultural economy. It will be less helpful in the new one.

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America and Iraq

The war over the war

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The right bellows its disapproval of the ISG report

NOBODY expected George Bush to salute the Iraq Study Group's report and promise to implement its recommendations forthwith. The president puts a premium on being seen as “the decider”. Similarly, nobody expected the conservative establishment to receive the report in silence. That is not in its nature either. But the right's reaction to a report that recommends the withdrawal of American combat troops by early 2008 and a return to diplomatic engagement in the region has been striking in its ferocity.

Mr Bush signalled that he is cool towards one of the central recommendations: engaging Iran and Syria in a regional dialogue. Most conservatives did not so much signal their disagreement with the report as bellow it.

Reuters

Send more, cry conservatives

The *Wall Street Journal*'s editorial page called it a “bipartisan strategic muddle ginned up for domestic political purposes”. Rush Limbaugh dubbed the ISG the “Iraq Surrender Group” and said that its members made him want “to puke”. Bill Bennett said: “In all my time in Washington I've never seen such smugness, arrogance or such insufferable moral superiority.” (Does Mr Bennett not possess a mirror?) Richard Perle called it a “misadventure” that should be ignored. The *New York Post* ran a picture of James Baker and Lee Hamilton—the ISG's co-chairmen—as “surrender monkeys”.

All this might be dismissed as hot air; Iraqi politicians also responded crossly (see article). But two things added to the gravity of the American backlash. First, John McCain—respected both as a war hero and a presidential contender—called the recommendation for drawing down troops “a recipe that will lead to...our defeat”, and repeated his support for sending more soldiers to Iraq. Then several respected military experts criticised the idea of reducing combat troops. Anthony Zinni, a retired general and a longstanding critic of the war, told the *New York Times* that, given the sectarian violence in Iraq, he favoured deploying more troops over the next six months to “regain momentum”. On December 11th, according to the *Washington Post*, a group of military experts told Mr Bush that, though they agree that the situation in Iraq is bad, they strongly disagree with the ISG's main suggestions, including reducing troop levels.

Conservatives are coalescing around a very different solution—upping America's game by sending more troops to Iraq. On December 14th the American Enterprise Institute, which was closely involved with the genesis of the war, presented its own report, “Choosing Victory”. The report's main authors, Frederick Kagan, an academic, and Jack Keane, a former acting army chief of staff, favour a “sustained surge of US forces to secure and protect critical areas of Baghdad”.

Meanwhile, the White House is engaged in intense discussions about what to do. Mr Bush plans to address the country early in the new year. He may long to go all out for “victory”, but in truth his options are limited. His outgoing defence secretary, Donald Rumsfeld, wrote a memorandum just before he was defenestrated, admitting that the current policy in Iraq was not working. And many military types, from General John Abizaid down, are sceptical about whether more troops would really solve the problem.

Moreover Mr Bush is rapidly running out of political capital. The Democrats have gathered round the ISG report. Rank-and-file Republican politicians are terrified that any pigheadedness on the part of the president could lead to a bloodbath in 2008. And the public has lost its confidence in the commander-in-

chief.

A Gallup poll on December 12th revealed that, among people who had an opinion on the report, a five-to-one margin favoured implementing its recommendations. The survey asked people to rank the following people and organisations—the armed forces, the ISG, Mr McCain, the State Department, Democratic leaders in Congress and Mr Bush—in terms of whether they could be trusted to “do the right thing” in Iraq. Mr Bush came last.

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Chicago

Daley runs again

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Cracks are appearing, but the dynasty looks set for another term

HIS strongest potential challengers have already declined to run against him. So after announcing officially, on December 11th, that he will run for a sixth term as Chicago's mayor, Richard Daley seems pretty certain to stay in the job that he has held since a special election in 1989. If he wins another four-year term—and can steer clear of bad health and federal prosecutors long enough to complete it—he will become the longest-serving mayor in Chicago's history. The current record belongs to Mr Daley's father, also called Richard, a legendary American political boss who ruled the city from 1955 until he died in office in 1976.

Despite all that has changed in the past 30 years, the first Mayor Daley would still recognise a few of the ideas that have helped his son stay in power for so long. One is to keep building. In the current Mayor Daley's stint in office, the city has put in new parks and renovated a famous sports stadium. New towers of office suites, condominiums and hotels have gone up in the downtown Loop; more are on the way. And Mr Daley has put in a bid to host the 2016 Olympics so that the city can build some more.

Even more important, however, is another approach to running Chicago that has not changed all that much. The city's voters still want a mayor who is decisive and can get things done. And they still do not mind the inconsistency when a mayor claims that he can cut through the nonsense on almost any issue, and yet somehow professes to be weak and uninformed when it comes to fighting corruption.

There has been plenty of corruption on the current Mayor Daley's watch. In one of the most notorious episodes, the city hired private trucks owned by politically important companies to do public work, and did not appear all that interested in getting its money's worth. Another scandal involved Mr Daley's former patronage chief, Robert Sorich, who was found guilty in July of steering city jobs towards people with political connections.

Mr Daley's latest effort to clean up his image led to a comical scene this week, when one of his rivals for the post—William “Dock” Walls, once an aide to another former mayor—was able to submit more petition signatures than Mayor Daley did when filing to run for the office, even though Mr Walls does not enjoy nearly as much popularity or clout. Mr Daley routinely used to submit enormous stacks of signatures—even though only a few thousand are needed to file a candidacy—as a show of strength. But this year his office required precinct workers, if they wanted to circulate petitions for him, to swear that they had not been promised jobs or promotions. Amazingly, many fewer people volunteered than in previous years.

Still, the mayor is getting a lot done, and he has been decisive. He will point to falling crime rates in the campaign, as well as a budget without property-tax increases. He has done a good job, so far, of handling battles between businesses and labour unions. During his tenure the city has also taken direct control of the city's schools and its public-housing outfit, both of which were a mess.

Fixing the schools, as in much of America, will be a long-term project. But students' test scores are a little better, and the drop-out rate is falling. Mr Daley has used his control over public housing to try to create more balanced neighbourhoods, with poor and middle-class people living near one another.

Besides Mr Walls, only one other challenger has so far emerged: Dorothy Brown, the circuit-court clerk. Mr Daley, who won 78% of the vote almost four years ago, is hoping for another resounding victory on February 27th. If nobody wins a majority, there will be a run-off election in April. And if there are no surprises, Chicagoans will not have to worry yet about what might happen when the dynasty ends.

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Mexican food

Hold the avocado

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Guacamole gets a gringo makeover

LAST year Brenda Lifsey of Los Angeles bought a tub of “guacamole” made by Kraft Foods. When she gave it a try, she noticed something amiss. “It just didn't taste avocadoey,” she said. The label confirmed her suspicions. Guacamole is mostly mushed avocado. Kraft's version is less than 2% fruit. Instead, it uses modified food starch, oil, corn syrup and dye. On November 29th, Ms Lifsey sued Kraft for fraud.

It was foolish of Ms Lifsey to expect real guacamole from Kraft. The company is famous for Singles—plasticky squares of “cheese product”—and Miracle Whip, a sugar-laden substitute for mayonnaise. It does not seem too concerned about authenticity, and neither do consumers. The Centre for Science in the Public Interest raised this exact issue three years ago. “By passing off these cheap pastes as guacamole, Kraft and others are practically begging to be sued,” said Michael Jacobson, the centre's executive director. It has taken all this time for someone to act on his tip.

According to Packaged Facts, a market-research firm, the Latin food industry will grow from $18 billion in 2005 to $25 billion by 2015. Already, Kraft is not the only company to be slapped for misunderstanding Mexican food. In November, the Qdoba Mexican Grill chain, featuring “signature burritos”, opened a store in a Massachusetts shopping centre. But a sandwich outlet called Panera was there first, and its lease allowed no other sandwich shops nearby. The matter made it to court, where the judge had to consult a chef and a dictionary before ruling that a burrito is not a sandwich.

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Louisiana politics

Antediluvian attitudes

Dec 13th 2006 | NEW ORLEANS
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Corruption no longer rules. But race matters as much as ever

WHEN it comes to politics, Louisiana has a certain reputation. This is the state in which Governor Huey Long obliged state employees to give to his campaign fund, and where voters three times re-elected Edwin Edwards as governor before he was jailed for racketeering. Now, after a run-off election on December 9th, New Orleans has just re-elected to Congress a man who is the target of a sweeping FBI bribery probe and whose freezer, when opened by the feds, contained $90,000 in marked bills.

Outsiders may stifle a yawn at the familiar tale; but to locals, William Jefferson's victory was a bit of a surprise. Ever since Hurricane Katrina drowned the state last year, Louisianans in general—and residents of New Orleans in particular—have been giving the impression that they are not as tolerant of corruption as before.

Ten days before Mr Jefferson was re-elected, for example, the state bond commission rejected an ill-conceived plan cooked up by Bob Odom, the state agricultural commissioner—who is awaiting trial on several counts of abusing his office—to build a sugar-syrup mill at state expense. One prominent backer was the president of the state Senate, whose son-in-law would have been among a select group of beneficiaries. It seemed that Mr Odom, long a fixture in Louisiana politics, had the votes locked up. Instead, a public outcry persuaded the panel to kill the project.

Before that, voters had taken two other stands for clean government. In New Orleans in November they overwhelmingly approved the abolition of the ancient property-tax system, in which seven neighbourhood assessors would routinely undervalue the properties of their friends. A month earlier, Louisianans voted to consolidate a welter of levee-oversight boards whose areas of responsibility and interest reflected politics, not hydrology. While some levee inspections by top officials have been conducted in a one-day whirlwind, for example, the New Orleans levee board spent months discussing the creation of an artificial island.

Most New Orleanians, though they still blame the federal government first, recognise that their city shared the blame for the horrors that followed Katrina. The months since the hurricane have seen a surge of civic activism, some of it led by the moneyed elites who, in the past, might have cared far more about the city's social season. Aggressive buy-local campaigns and defiant slogans on T-shirts (“Make Levees, Not War”) have spread the message. And when five cities held a simultaneous one-day event to examine priorities for rebuilding, 2,500 people showed up.

Mr Jefferson won not because corruption makes no ripples, but because of racial factors. Analysts estimate that he received roughly four-fifths of the black vote, while his opponent, Karen Carter, a black state representative, got nearly as large a share of the white vote. Many blacks saw Mr Jefferson as the victim of a federal witch-hunt. Many whites saw Ms Carter, who has a privileged background and lighter skin, as the “less black” of the two.

In the city of New Orleans itself, the two candidates were almost tied in the number of votes they received. The election was won and lost in Jefferson Parish, where racial politics took an odd turn. About 30% of the district's voters live outside the city, and although suburban whites are, by and large, more conservative than urban counterparts, more than half of them voted for the incumbent.

It seems they had objected to Ms Carter's criticisms, made in Spike Lee's documentary about Katrina, of the way the Jefferson Parish police used their guns to turn back groups of black New Orleanians who were trying to flee the city. Harry Lee, the legendary and long-serving sheriff of Jefferson Parish, sent out fliers expressing his “utter contempt” for Ms Carter and railed against her “fat mouth”. “She made us look

like we're a bunch of yahoos down here," Mr Lee said. "A bunch of racists." Louisiana may be cleaner these days, but racial sensitivities still trump everything.

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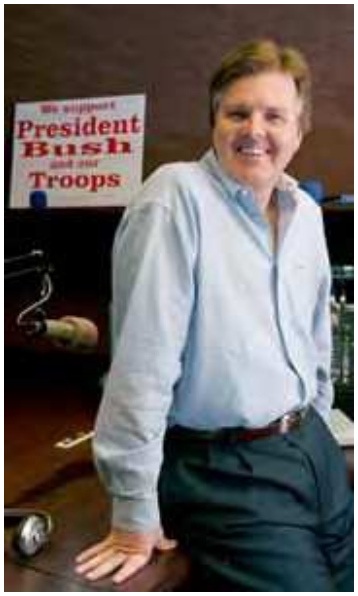
Texas politics

Showtime in Austin

Dec 13th 2006 | AUSTIN
From The Economist print edition

A conservative talk-show host finds a new career

AP



IT COULD be a dream or a nightmare: a wild-mouthed talk-show host running for Congress and winning. In Texas, it has more or less happened. Dan Patrick, a conservative talk-radio host from Houston, wowed political observers this spring by trouncing three veteran politicians in the Republican primary with 69% of the vote. In November he was easily elected, again with 69% of the vote, to the state Senate. After taking office in January he plans to keep broadcasting his show from Austin, and the capital is primed for drama.

Mr Patrick (not to be confused with the ESPN sportscaster with the same name) has a hard-right agenda. He loves low taxes, but one of his top priorities is slapping a 10% tax on all sums of money smaller than $5,000 wired from Texas to Mexico and other countries. This tax—principally falling on the working poor—would raise $500m, by Mr Patrick's calculation. It would help stop the "great drain of dollars out of this country", and the money would be used to fund border security (such as more border jails) and to reimburse Texans for the health-care and education costs of illegal immigrants. Mr Patrick also plans to introduce an abortion trigger-bill, which would outlaw abortion in Texas the minute the Supreme Court overturns *Roe v Wade*, if that happens.

Does his agenda matter? Yes, because listeners in the state's two biggest cities, Dallas-Fort Worth and Houston, will be hearing about it five days a week when he broadcasts from Austin. Those listeners can clog the phone lines and make life miserable for lawmakers he disparages (the "Dan Patrick Effect", in the local lexicon). Mr Patrick calls it the Ronald Reagan approach—going over the heads of the politicians and appealing to the people—and says it will create more openness in Austin. But already he has made foes. He regularly blasts Fred Hill, a Republican lawmaker from a Dallas suburb, for opposing a cap on property-tax appraisals. Mr Hill responds that the issue is far more complex than Mr Patrick makes it out to be—undoubtedly true, as it is one of the trickiest subjects in Texas—and lambasts such "bumper-sticker-type politics".

Will Mr Patrick tone down his approach now he has reached the halls of power? After all, it is hard to negotiate with a fellow lawmaker if the next minute "you walk out on the steps and call [him] a weasel," says Ross Ramsey, the editor of *Texas Weekly*, a political newsletter. Already, Mr Patrick's criticism of David Dewhurst, the powerful lieutenant-governor, has cooled since early summer, notes Mr Ramsey. A prudent move: Mr Patrick may dispute the lieutenant-governor's position on taxing businesses, but Mr Dewhurst is also the president of the Senate, assigning freshmen to committees and arranging the order in which bills are introduced.

Mr Patrick seems to relish his insurgency, though, and most expect him to keep bashing away. After all, the state Senate may not be his last political stop. He is slowly expanding his media empire, and thus name recognition, from his Houston base: he recently bought a radio station in Dallas, and will probably buy more elsewhere in the state. So what about the governorship in 2010, when he might face Mr Dewhurst? Mr Patrick is coy. "Everyone else is talking about what we will do in four years," he says. "I'm still just focused on the Senate."

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Lexington

Shrinking Supremes

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A less active Supreme Court will not be a less controversial one

Get article background

"MODESTY" is not the first word that comes to mind when you think of the Supreme Court. The court is housed in a marble palace on top of a hill. And the justices conduct themselves like modern-day philosopher-kings, dressed in robes and surrounded by forelock-tugging flunkies.

But is the court acquiring a taste for modesty? John Roberts talked a lot about humility during his confirmation hearings. And now, a year and a bit into his tenure as chief justice, he seems to have made striking progress in imposing his views on the court.

Modesty is at the core of Mr Roberts's judicial philosophy. It is first and foremost the antithesis of "judicial activism". Mr Roberts strongly believes that judges should restrict themselves to interpreting the law rather than solving society's problems. But modesty entails some other things as well. Mr Roberts favours legal minimalism: deciding issues on narrow grounds wherever possible. He favours predictability, or deciding cases on the basis of rules that can be used in the future. And he puts a strong emphasis on building consensus. The best way to forge consensus among nine headstrong jurists is to adopt a limited view of what the court is doing.

During his confirmation hearings Mr Roberts hit on the metaphor of a baseball umpire. "It is a limited role," he explained. "Nobody ever went to a ballgame to see the umpire...It's my job to call balls and strikes and not to pitch or bat." And he has dropped more hints since becoming chief justice. He argued at Georgetown University law school that "If it is not necessary to decide more to dispose of a case, in my view it is necessary not to decide more." He told an interviewer that he re-read the constitution at the end of the court's term in order to see how close the court was to the original document. Asked which founder he would most like to have been, he said he would like to have been the one who "brokered the great compromises".

The most striking evidence that Mr Roberts is stamping his philosophy on the court is the dramatic decline in business. The *New York Times* reports that the court has taken 40% fewer cases this term than last, leaving big gaps in its calendar for late winter and early spring. The number of cases which the court

decided with signed opinions last term, 69, was the lowest since 1953, and fewer than half the number that the court was deciding in the mid-1980s. Constitutional law professors are even complaining that they have too few new cases to get their teeth into.

Opinions are more often unanimous, too. In the 2005 term, according to the Cato Institute, a libertarian think-tank, the court decided almost half its docket without dissents—a big improvement on recent terms. In cases with dissents, Mr Roberts was most often in the majority. Some of these decisions concerned issues where court-watchers had predicted fierce battles—most notably abortion, the death penalty and religious freedom.

Dramas in the wings

But none of this means that the court will cease to be a lightning rod. Mr Roberts can try to decide every issue on the narrowest grounds possible. The court can shy away from taking a few controversial cases. But it has no choice but to wade into the culture wars. A modest court is not an uncontroversial one.

The court continues to be narrowly divided between liberals, who believe in a “living constitution”, and conservatives, who emphasise the “original intentions” of the Founding Fathers. These divisions were on vivid display on December 5th in a public debate between Antonin Scalia, the court's leading conservative, and Stephen Breyer, its leading liberal. Mr Breyer argued that, if the originalists are right, then America might as well have “nine historians on the court”. Mr Scalia shot back that he would rather have nine historians than nine ethicists.

The only thing they seemed to agree on was the inadequacy of Mr Roberts's minimalist philosophy. And his emphasis on modesty is, in truth, something of a dodge. What does it actually mean when you test it against hard cases such as *Roe v Wade*—a case that most conservatives, and a growing number of liberals, believe was wrongly decided? Does it mean that you (modestly) accept the judgment on the grounds that it is settled law? Or does it mean that you (modestly) reject the judgment on the grounds that it represented judicial activism gone mad? Mr Roberts dodged the question during his confirmation hearings by appealing to the principle of *stare decisis* (let the decision stand); but the job of a Supreme Court judge must involve revisiting earlier decisions.

The court also has no choice but to decide hard cases: that is its job. Plenty of controversial subjects are coming down the pike—most notably, terrorism-related cases that raise profound constitutional questions about the power of the presidency. A couple of red-hot cases also feature in the court's current docket: one about the federal government's ban on partial-birth abortion, the other about the use of race as a criterion for deciding admissions to schools.

Mr Roberts may be able to produce a narrow ruling on partial-birth abortion. But there are growing signs that the court will produce a dramatic ruling on affirmative action. Sandra Day O'Connor, the court's most important defender of the policy, has retired; and Anthony Kennedy, the court's new swing vote, has a history of being troubled by using race as a criterion for admissions. “You're characterising each student by reason of the colour of his or her skin,” Mr Kennedy said recently during oral arguments. “And it seems to me that that should only be, if ever allowed, allowed as a last resort.”

The new chief justice has made impressive progress in making his court a more modest place. But however hard he tries, he will not be able to make it entirely boring.

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Correction: Kentucky's second district

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In our December 2nd issue, Lexington incorrectly claimed that Mike Weaver, a Democrat, won Kentucky's second district in November. In fact, the incumbent, Ron Lewis, held his seat. Our apologies.

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Bolivia

Morales the bountiful

Dec 13th 2006 | LA PAZ AND SANTA CRUZ
From The Economist print edition

But 2,000 of the president's opponents have stopped eating

AFP

Get article background

INSIDE the governor's palace in Santa Cruz, the walls are plastered with posters shouting “We would rather die than live as slaves. Two-thirds or nothing!” The floors are strewn with mattresses occupied by hunger strikers. They are among 2,000 fasters demanding that a constituent assembly rewriting Bolivia's constitution should approve each of its articles by a two-thirds vote of its 255 members, not the simple majority favoured by the left-wing government of Evo Morales in La Paz.

This may sound like an obscure procedural dispute. In fact it shows that Bolivia is dangerously divided. The fissures have widened since Mr Morales, a socialist of Andean-Indian descent, was elected president a year ago. And though Bolivia is a poor place with a population of only 9m, it has much natural gas and lies at the heart of South America. It is being watched very closely by the outside world.

Some see in Mr Morales a standard-bearer for a racially inclusive democracy in a region of notorious social inequality. He says his government heralds the end of 500 years of oppression of Bolivians of indigenous descent by whites and (mixed-race) *mestizos*, and of Bolivia itself by rapacious foreign powers. Others say a *mestizo* in a country with a mixed-race majority is using race as a political tool. In this view, he is following in the footsteps of his closest ally, Venezuela's Hugo Chávez, using democracy to install an authoritarian regime and thus perpetuate his power.

This second camp includes the elected governors of four eastern provinces (known as departments in Bolivia), who fear that Mr Morales will use the constituent assembly to impose the values of the Andean-Indian communities on the entrepreneurial east. They say he would destroy the east's prosperity by introducing a “communist model” and its liberty by denying autonomy to the four departments, which voted for this in a referendum last July. They plan street protests to pursue autonomy with or without the government's blessing. The hunger strikers talk of secession and independence. Mr Morales has threatened to send in the army.

The two sides may yet pull back. There is fitful talk of a deal between opposition parties and Mr Morales's Movement To Socialism (MAS) on autonomy and the two-thirds rule. Easterners do not plan to challenge the army, which largely backs Mr Morales. Yet strife is likely to persist. “La Paz is another reality,” says

Erich Fleig of the Pro Santa Cruz Committee, which leads the autonomy movement.

Mr Morales has the support of two-thirds of Bolivians according to opinion polls. But his grip on power has not been entirely secure. In October, 16 people died in clashes between salaried and freelance miners, the sort of incident that has toppled presidents in the past. Since then, he has scored political victories. He signed agreements with foreign energy companies over the “nationalisation” of oil and gas and rammed a land-reform law through Congress. Each such victory enhances Mr Morales's status as a liberator, preparing the way for the next one.

Will popularity create the political dominance that elections did not quite produce? Mr Morales wants the constituent assembly to “refound” Bolivia. It has declared itself to be sovereign over every other institution, but spent most of its four-month life so far arguing about the two-thirds rule and other procedural issues. The MAS has yet to produce a constitutional blueprint, but Mr Morales wants to apply Andean-Indian conceptions of communal rights to democracy and to the economy, as well as allowing presidents to stand for consecutive terms.

So far, Mr Morales has played largely by the rules. The MAS enjoys a majority in the lower house of Congress. It pushed land reform and a controversial military agreement with Venezuela through the Senate thanks to a boycott by much of the opposition. The sometimes quarrelling social movements that make up the MAS have provided rowdy pressure from the streets, marching to the Senate to press for land reform. Mr Morales “has a 99% chance of being a *caudillo* with democratic trappings,” says Walter Guevara, a political analyst. That is what worries the opposition.

In practice if not in rhetoric, Mr Morales has shown some respect for the laws of economics. He replaced an ideologue at the energy ministry with the more pragmatic planning minister, Carlos Villegas. He then signed a deal to export 28m cubic metres a day of natural gas to Argentina, an amount equal to more than half of current output, at a juicy price.

That tempted a dozen foreign energy companies to sign new contracts, which include surrendering gas to state-owned YPFB. If Argentina keeps its promises, industry sources say, some of the companies may invest $3 billion to fulfil the contract. Nationalisation may carry a cost: Brazil's Petrobras, the largest investor, dropped plans to more than double its gas imports, but it is now reconsidering. The new contracts, which skim off more than half the revenue as tax, do not encourage further exploration, says José Magela Bernardes of the Bolivian Chamber of Hydrocarbons.

All told, extra money from gas should boost government revenue by 7% of GDP this year, though under current rules much of this will go to the departments of Santa Cruz and Tarija. In another move reminiscent of Mr Chávez, Mr Morales gleefully assigned the army to distribute some of the windfall to schoolchildren.

That does not seem to signal the start of reckless spending. Mr Morales has faced down pressure for sharp increases in government salaries and the minimum wage. Thanks to higher revenues, last year's public-sector deficit of 2.3% of GDP will be a surplus of better than 5% this year. The government plans to follow the example of Chile rather than Venezuela in establishing a stabilisation fund to save part of its gas windfall for leaner times.

Revolutionary or reassuring?

On the economy, the government tries to sound revolutionary and reassuring at the same time. “Peasants don't want socialism,” says Gabriel Loza, the head of a think-tank linked to the planning ministry. The government will play a direct role only in “strategic sectors” such as hydrocarbons, mining and electricity. It will help the private sector through a new development bank. Next year will be one of “strong investment” in non-oil sectors, says Mr Villegas, the energy minister.

But it will take many such years to transform a country where nearly two-thirds of the population is poor and half the workforce jobless or underemployed. As well as gas, the economy is benefiting from high

prices for minerals, plus remittances and debt forgiveness. Local private companies are investing little. As a result, some 500 Bolivians a day are leaving. The government's obsession with controlling and redistributing land, gas and other natural resources misses the point, believes George Gray Molina of the UN Development Programme in La Paz. It should encourage investment in export industries that add value to raw materials.

Between the vagueness of Mr Morales's intentions and the harshness of some of his tactics, his foes are not sure whether he is prepared to accept checks on his power. The government has filed criminal charges against all five living ex-presidents and other former officials. After hunger strikers in Santa Cruz were assaulted by MAS supporters, the interior minister said the victims were not entitled to protection because the strike is illegitimate.

The showdown will come in the gas-rich, grain-growing east, over the intertwined issues of autonomy and land. In Santa Cruz, people do not disagree that land should be expropriated if it is held illegally or is not fulfilling its “economic and social function”. But they say the government's plan to verify this every two years will discourage bank lending and they fear that expropriation decisions will be political. Unlike earlier reforms, the new law mandates distribution to communities, not individuals—proof of Mr Morales's collectivist tendencies, say opponents.

They worry, too, that land reform will be used to flood the lowlands with impoverished indigenous folk, tipping the ethnic and political balance. If Mr Morales distributes just a tenth of the 20m hectares (50m acres) he has promised, a million highlanders could head to the lowlands, says Miguel Urioste of Fundación Tierra, a think-tank. Thus will he “win the east”.

The champions of regional autonomy for the departments say that such a policy will promote good government and end excessive centralisation. Mr Morales prefers to reduce autonomy by distributing powers to regions and indigenous communities and to give Congress the right to sack governors. How hard will he push? That is what the hunger strikers are about to discover.

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Chile

After Pinochet

Dec 13th 2006 | SANTIAGO
From The Economist print edition

The dictator's funeral may presage political change. His trials have already changed international law (see article)

Get article background

Reuters

They drank to his demise

HAD it occurred a decade ago when he was still army commander, Augusto Pinochet's death might have divided Chileans much as he did when he was their dictator. Yet in the event his funeral showed how much Chile has changed. And it may cause it to change even faster.

To be sure, news of his death from a heart attack on December 10th prompted familiar, polarised images. Several thousand of his opponents gathered in Santiago's Plaza Italia. They popped bottles of sparkling wine and a few went on to trash bank branches and clash with police. The next day some 60,000 supporters of the man they called “My General” queued for up to seven hours to file past his coffin as it lay in Santiago's military academy.

The centre-left Concertación coalition, which has governed since the return of democracy in 1990, had ceased to be intimidated by General Pinochet or the army. The president, Michelle Bachelet, ruled out a state funeral and any official mourning. Her father, an air-force general opposed to the dictatorship, died after being arrested after the coup; she was briefly detained and roughed up. She argued that a man indicted for murder and tax evasion deserved no special honours.

The government was represented at the military funeral by Vivianne Blanlot, the defence minister. She was heckled. But in a symbolic gesture, the four commanders of the armed services sat with Ms Blanlot rather than with the dead man's family. The body was then flown by helicopter to a cemetery near the port of Valparaíso, his birthplace, for cremation. There will be no tomb to be desecrated.

Until his arrest in London in 1998, and subsequent legal cases against him in Chile, some 40% of his fellow-countrymen supported the former dictator. Most conservative politicians have since taken their distance, especially after hard evidence emerged of his secret bank accounts abroad, opened using false passports. Neither of the two defeated conservative candidates in last year's presidential election attended the funeral.

Will General Pinochet's death change Chile's political landscape? It could help the right finally to win the majority that has eluded it since the 1950s by freeing it from association with the dictator. But that may require a new crop of politicians with no ties to the past. Oddly, the impact on the ruling Concertación might be as great. Created to defeat the dictatorship in a 1988 referendum, it has suffered recent allegations of corruption. It may now be forced to redefine itself, says Eugenio Tironi, a sociologist. But many Chileans will merely breathe a sigh of relief.

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Human-rights law

Ending impunity

Dec 13th 2006
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Pinochet's involuntary legacy

MUCH of the commentary after the death of General Augusto Pinochet lamented that he had not been brought to justice for his crimes. Yet that is to miss the most important point. His arrest in London in 1998, and the House of Lords' subsequent approval of his extradition to Spain on torture charges, marked a watershed in international law. For the first time, a national court had ruled that there could be no immunity for a head of state, serving or retired, for the very worst crimes, even when claimed to be part of his official functions. The fact that the elderly and supposedly ailing general was not in the end extradited did not matter. Thereafter no tyrant could consider himself safe from charges of crimes against humanity.

Until the Pinochet ruling, most had managed to avoid being brought to account. A few, like Mussolini, were shot without legal niceties. Others, like Hitler, took their own lives. Many, including Stalin, Mao Zedong, Franco, Haiti's "Papa Doc" Duvalier and North Korea's Kim Il Sung, died in office. Those who were deposed could count on a comfortable exile, like Uganda's Idi Amin, who died in Saudi Arabia; Ethiopia's Mengistu Haile Mariam, exiled since 1991 in Zimbabwe; and Haiti's Jean-Claude "Baby Doc" Duvalier, who has lived in France for the past 20 years.

AFP

When Pinochet and Videla were the law

That is now changing in ways once seen as inconceivable. In May 1999 Slobodan Milosevic, Serbia's president, became the first serving head of state since the second world war to be charged with war crimes. He died of a heart attack in The Hague in March, shortly before the end of his trial. Indicted in 2003, Charles Taylor, Liberia's president, was caught in March and handed over to Sierra Leone's Special Court (sitting in The Hague). Last month Saddam Hussein, Iraq's former dictator, was sentenced to death after being convicted of war crimes by a special Iraqi court. This week, Mr Mengistu was found guilty of genocide in absentia.

In Latin America, too, the climate has changed. Last month Juan María Bordaberry, a former Uruguayan dictator, was arrested for the murder of opposition leaders in 1976. Meanwhile, a Mexican court ordered the arrest of a former president, Luis Echeverría, for the massacre of student protesters in 1968. Brazil has just opened its first investigation of past abuses—against the head of São Paulo's secret police under its 1964-85 dictatorship. The head of Argentina's former military junta, Jorge Videla, may also soon be in the dock after a 1990 presidential pardon was overturned.

Chile's Supreme Court is due to rule soon on Peru's request for the extradition of its former president, Alberto Fujimori, on charges of brutality and corruption. General Pinochet himself had just been put under house arrest—for the fourth time—on charges of torture, kidnapping and murder. Three dozen of his generals have been sentenced or face charges.

Not all of this was the direct result of the House of Lords' ruling. The end of the cold war had already brought a new focus on human rights. Ad hoc war-crimes tribunals were set up for ex-Yugoslavia and Rwanda; the permanent International Criminal Court was founded in 1998. But the Pinochet case set a precedent, and inspired victims around the world, particularly in Latin America, to challenge the amnesties of the 1980s and 1990s that had shielded dictators and their henchmen from prosecution. In the annals of international law, it is for this that General Pinochet will be remembered rather than for his own lucky escape from justice.

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Aviation in Brazil

Grounded

Dec 13th 2006 | SÃO PAULO
From The Economist print edition

A lackadaisical response to flight chaos

A RADIO failure on December 5th caused the worst delays in the history of Brazilian air travel. In the time it took to fly the 400km (250 miles) from São Paulo to Rio de Janeiro, a traveller could have driven there and back. This followed two months of unaddressed problems that have crippled aviation in a vast country in which flying is often the only way to get around.

They began when an executive jet collided with a commercial aeroplane in mid-air, knocking it out of the sky and killing 154 people. Air-traffic controllers, the pilots of the executive jet and the jet itself are all expected to share the blame. Stung by criticism, the controllers began a work-to-rule. They also began to talk to the media. Brazilians discovered that their airspace is pocked with blind spots, that equipment is faulty and lacks backups and that, as elsewhere, pirate radio stations are interfering with communications between controllers and pilots. Last week's blackout was caused by a maintenance error, which apparently no Brazilian was qualified to correct.

The underlying problems are that the air force runs air-traffic control and it and the government have failed to keep up with booming traffic. This has grown at 15% a year or more since 2004, notes Andre Castellini of Bain, a consultancy. The government ignored repeated calls for more air-traffic controllers and investment. While control towers lacked essential equipment, airports received expensive facelifts.

After a bumbling beginning, the government of President Luiz Inácio Lula da Silva is now taking steps to avoid chaos during the peak holiday season. Air-traffic controllers are being drafted out of retirement and backup equipment is being installed. Some responsibility is to be decentralised from the overburdened control centre in Brasília. If that is not enough to ensure a trouble-free Christmas and Carnival, the defence minister offered another solution: prayer.

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Pakistan's tribal areas

The frontier spirit

Dec 13th 2006 | ISLAMABAD AND PESHAWAR
From The Economist print edition

AFP

The softly-softly approach of Pakistan's government to its lawless tribal areas is accused of destabilising Afghanistan

PERVEZ MUSHARRAF, Pakistan's president, likes to have it both ways. Earlier this month he pleased the West by urging Pakistanis to reject “hypocrites” and “extremists”. One of those he probably meant, Fazlur Rehman, head of the Muttahida Majlis-e-Amal (MMA), Pakistan's powerful coalition of Islamic parties, was peeved. He had recently extricated Pakistan's army from an unpopular military campaign by arranging peace with pro-Taliban militants. In return, he grumbles, “Musharraf labels us dangerous.”

In America General Musharraf's willingness to make peace with militants has caused alarm. Its five-year-old policy in Afghanistan is foundering on the country's lawless border. Since 2001 Pakistan's army has lost around 750 soldiers hunting “terrorists” in the Federally Administered Tribal Areas (FATA). Now America is very concerned that Pakistan, where it is due to spend $1.5 billion in military aid from 2005 to 2009, is no longer ready to mount big military operations there.

This follows a deal General Musharraf's government signed on September 5th with militants in North Waziristan. Ali Jan Orakzai, the governor of North-West Frontier Province (NWFP), had promoted the deal, arguing that the campaign “threatened the stability of the rest of the country”. When General Musharraf visited Washington, DC, in September, he won George Bush's endorsement for it. But American military commanders say that since the deal more insurgents have been crossing the border, and are not so sure.

Just before a similar deal was to be signed last month in Bajaur, an air strike levelled a *madrassa* killing 80 people. The Pakistan army said it was responsible. But many blamed an unmanned American drone. The response—a suicide-bomb attack that killed 42 army recruits at Dargai—was a reminder of the pressures on General Musharraf. Violence in the tribal agencies has seeped into the “settled” areas of NWFP, which are dominated, like the FATA and much of Afghanistan, by ethnic Pushtuns. It has been linked to plots on the general's own life.

Yet in the 27,220 square kilometres (10,510 square miles) of FATA, divided into seven tribal agencies, not much seems to have changed since the deal. Arbab Arif, the civil servant in charge of security, says it is “business as usual”. For the government this means freeing captured militants and continuing to lavish money on the relatives of those killed in operations in Waziristan. For the militants it means imposing Islamic law, beheading “American spies” and pro-government clerics, occasionally abducting government employees, and rocketing paramilitary troops and even General Orakzai himself.

The colonial-era model of governance, based on *maliks*, tribal leaders, who mediate with the central administration through an (often corrupt) political agent, has been usurped by militant rule. Mr Arbab admits that his interlocutors are now *ulema*, religious scholars—in this case a euphemism for militants. But he says they are not running a "parallel administration". The government would like to ink further deals in Bajaur and South Waziristan. General Musharraf recently dismissed the majority of the tribal troublemakers as *charasi* ("hashish-smoking") Taliban, ie, thugs using the Taliban's mantle.

A new report suggests that the government likes it that way. The International Crisis Group (ICG), a research and lobbying outfit, argues that the government's "ambivalent approach" is destabilising Afghanistan and that the FATA is "tenuously governed" to keep it as a buffer zone. The report claims that ham-fisted military action combined with appeasement has strengthened the militants' hand.

There are growing calls within the impoverished, mostly illiterate tribal areas for democratic reform. Political activity is forbidden among their 3.5m inhabitants. The entry of secular politicians into FATA is practically banned, "whereas the mullahs enjoy free entry," says Afrasiab Khattak, a leader from the Awami National Party (ANP), a Pushtun-nationalist group.

Under Western pressure, several government committees have proposed reforms. But none has gone through. The government will bestow cash, medical facilities, schools and roads, says Mr Arbab, but "it is no time for half-baked reforms."

Nobody understands the frontier better than does the portly Mr Rehman. His coalition runs the NWFP government and is part of a ruling coalition in Baluchistan, the other province abutting the colonial-era border, the Durand Line. The shrewd cleric's own party, the Jamiat Ulema-e-Islam runs hundreds of *madrassas* across the frontier. The ICG thinks they are Taliban recruitment centres.

Mr Rehman says the solution is to talk to the Taliban—a view shared by General Musharraf. Declaring that the enemy is no longer al-Qaeda but the Pushtun-dominated Taliban, he has called for reconciliation. But the Pushtuns are divided. The ANP recently convened a Pushtun *jirga*, or tribal assembly, in an attempt at unity. "The Taliban are not the creation of Pushtun society, but the creation of the Pakistan army," Asfandyar Wali, the ANP's head, told it. There is much talk of a grand cross-border *jirga* early next year, hosted by Afghanistan's president, Hamid Karzai, himself a Pushtun. But Mr Rehman is unimpressed: without the warring parties—the Afghan government and the Taliban—"it will be just *gupshup* [chat]".

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Aceh's election

The alternative to war

Dec 13th 2006 | BANDA ACEH
From The Economist print edition

A landmark in the peace process

Get article background

AFP

Better this way

INDONESIA'S province of Aceh, once a byword for the intractability of conflict, is witnessing one of the world's most successful peace processes. That process passed an important milestone on December 11th, when voters went to the polls for the first direct elections for the provincial governor and 19 of the 21 district chiefs.

Sixteen months ago the region on the northern tip of Sumatra was mired in a 29-year-long separatist conflict that had claimed 12,000 lives. And it was reeling from the massive earthquake and tsunami the previous December that killed some 170,000 people across the province and left 500,000 homeless.

The disaster opened the eyes of both the government in Jakarta and the rebel Free Aceh Movement (GAM) to Aceh's war-weariness. A peace deal was struck in August 2005. Since then, events have unfolded more hopefully than anyone could have predicted. Under the supervision of monitors led by the European Union, GAM disarmed and Indonesian troops returned to barracks. A law was passed granting Aceh generous autonomy.

Held amid unprecedented traffic jams, the optimism surrounding the election was palpable. Official results will not be declared until January. But two separate and reliable counts from several hundred sample polling stations predict the next governor will be Irwandi Yusuf. He is a former GAM commander, who escaped from prison when the tsunami knocked down the front wall. He went on to help negotiate the peace deal and then became GAM's representative on a joint security commission with the government.

Mr Irwandi and his running mate, Muhammad Nazar, another veteran independence activist, are forecast to have won about 39% of the vote. The second-placed pairing also included a GAM representative. So the movement in effect won 55.5% of the popular vote. This rejection of the Jakarta establishment was much more comprehensive than most observers, let alone the government, had foreseen.

It is not, however, a mandate to renew the war for independence. One credible exit poll revealed that protecting the peace process had three times more weight in determining voting decisions than did any other factor. Though he has no administrative experience, Mr Irwandi is expected to respect the popular will and cement the peace process rather than seek ways to dismantle it.

How the government in Jakarta will react is harder to predict. The army has matured enormously as an institution since it engineered widespread bloodletting in 1999 after East Timor voted for independence. But undisciplined individuals, not to mention disgruntled politicians, might hope to destabilise the province, especially with a view to the 2009 general election, when GAM should run for the first time as a reincarnated political party.

What, strangely enough, will probably help reduce political foul-play is the parlous state of Aceh's economy. While the traffic congestion may be a heartening sign, no one pretends that the apparent boom is anything other than temporary: one aspect of a huge bubble inflated by the post-tsunami reconstruction aid blowing into the province.

Some $2 billion has entered the local economy this year. But two years after the disaster, a sustainable

recovery has yet to take root. That, however, may be a reason for optimism. Reconstruction should keep Mr Irwandi and other politicians with an eye on 2009 fully occupied. Until last August, ending the conflict and recovering from the tsunami were two distant and very separate dreams. The successful election means they have now fused into a single task, albeit a massive one.

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Sri Lanka

The alternative to voting

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A slide back into all-out war

Get article background

AS ACEH went to the polls, Sri Lanka, another tsunami-ravaged conflict zone, was descending further into full-scale war. The protagonists—the government, representing the Sinhalese majority, and the Liberation Tigers of Tamil Eelam, fighting for a “homeland” for the ethnic-Tamil minority in the north and east of the country—have all but shut the door to political dialogue. Both sides have since early this month been fighting for strategic positions in the ethnically mixed east.

In the past year, the conflict has killed more than 3,500 people and displaced more than 250,000, mostly Tamils and members of the Muslim minority. Some 15,000 have fled to neighbouring India by boat. The Sinhalese are suffering, too, with about 1,500 displaced. The undeclared war has bred a climate of impunity. Extrajudicial killings, disappearances, child abductions and terrorist killings are rife.

The tone for the latest round of fighting was set by the Tigers' chieftain, Velupillai Prabhakaran, in his annual “Heroes' Day” speech. He said the government's “chauvinism” left the Tigers no option but “an independent state for the people of Tamil Eelam”. On December 1st, as if to signal the beginning of a new push for statehood, a suicide bomber in Colombo attacked Gotabaya Rajapaksa, a senior official, and brother of Mahinda Rajapaksa, the president. He escaped but the attack set off a chain of retaliation.

In a tough speech, President Rajapaksa said that his foremost task was to defeat terrorism. He announced the virtual revival of draconian anti-terrorism legislation, suspended in 2002 as part of the peace process. The tough talk went hand in hand with an air, sea and land operation to capture Vaharai, a strategic coastal town in the east. Taking Vaharai would drive a wedge between Trincomalee and Batticaloa, Tamil-dominated districts. Mr Rajapaksa hopes to force the Tigers to the table. Unlikely: Mr Prabhakaran has vowed not to negotiate from a position of weakness.

On the political front, hopes of progress were dashed by the divisions in a committee of experts appointed by the president to suggest a solution to the ethnic question. Of its 17 members, 11 wanted a far-reaching system of devolution that would have satisfied most moderate Tamils and isolated the Tigers. But the politically influential minority succeeded in neutralising their recommendations. This will antagonise Tamils at large, and widen the gulf between them and the Sinhalese.

In August the government “for security reasons” closed the main A9 highway to the north at the Muhamalai checkpoint. Because of that, and the Tigers' threat to shipping, about 600,000 people in Jaffna have been facing severe shortages of food and medicine. Shipment of 10,000 tonnes of food from India has been stalled by the lack of security guarantees from the Tigers.

Foreign countries are powerless to stop the worsening disaster. In 2002 Norway was the broker of a “ceasefire agreement” still notionally in force. In 2003 international donors promised huge financial assistance to the country if the war ended. But this year, even when the two sides have been cajoled to the table, they used it only for thumping.

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The Philippines

It takes two to cha-cha

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An outrageous attempt to rip up the constitution backfires

Reuters

Ardent supporters of a bicameral legislature

PRESIDENT Gloria Macapagal Arroyo of the Philippines should have been basking this week in the international limelight as hostess at a summit of East Asia's leaders. Instead, Mrs Arroyo has been left looking shabby and incompetent—partly because of her abrupt postponement of the summit, on the dubious grounds of bad weather, and partly because of a scandalous attempt by her supporters in Congress's lower house to hobble the constitution and abolish the independent-minded Senate. Ostensibly, the summit was cancelled because of Typhoon Utor, which hit the Philippines this week, causing several deaths. But the country's weather bureau had told the government the typhoon would skirt Cebu City, the summit venue.

The real reasons, many suspected, were either that Mrs Arroyo feared that her security forces would fail to stop a suspected terrorist plot to attack the summit, or that it would be marred by the massive demonstrations called by outraged church and civic leaders over her allies' constitutional shenanigans. One Catholic bishop urged soldiers to join the rallies. Mrs Arroyo survived a coup plot by disgruntled military officers in February. If the uproar had not prompted her allies to back down, she might have been swept from office by a “people power” uprising, as was her predecessor, Joseph Estrada, in 2001.

Her proposal to change the constitution was, in itself, not unreasonable. The presidential system of government Filipinos inherited from their former colonial master, America, produces legislative gridlock and thus stymies the country's development. This has been amply illustrated by the months of bickering that delayed the passage of next year's budget. Mrs Arroyo and others argue that a parliamentary system, ideally with just one chamber, as in stable and prosperous New Zealand, would overcome this. But it was unreasonable for her allies to attempt to railroad the change through Congress, by unilaterally scrapping the rule that constitutional amendments, like other laws, must be approved separately by both chambers.

Mrs Arroyo's Plan A had been to achieve charter change (“cha-cha”, as Filipinos call it) by raising a mass petition calling for a referendum to endorse it. Her supporters gathered 6.3m signatures but in October the Supreme Court rejected the petition. Plan B was to convene Congress in a joint session known as a constituent assembly, or “con-ass”, to rewrite the charter. However, senators, realising that this would result in the abolition of their chamber, were understandably reluctant to become the turkeys that voted for an early Christmas. So, on December 6th, the president's big majority in the House, ignoring the opposition's squeals, voted to abolish the Senate's veto.

The president's allies in the House at first insisted that they would begin the special, constitution-writing session of Congress this week. However, as popular outrage mounted, they were forced to beat a humiliating retreat. By December 11th, “con-ass” was scrapped. Nevertheless, there is now a Plan C: voters nationwide would elect representatives to a constitutional convention, or “con-con”, which would then rewrite the charter.

This would be a more open and democratic way to debate changing the country's fundamental form of government. But the antics of the president's supporters have reinforced the worries of many Filipinos that “cha-cha”, by whatever means, is a con-trick: either to stop Congress from impeaching Mrs Arroyo over claims that she fiddled the 2004 presidential elections; or as a ruse to delay next year's congressional elections; or simply to squash all future opposition. In any case, “con-con” may get no further than other attempts to change the constitution: unless there is another effort to override the Senate's veto, it seems unlikely to approve the creation of a body that would sign its death warrant.

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India's nuclear plans

The home front

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Looking a gift horse in the mouth?

INDIA'S civil nuclear deal with America is about rather more than the proportion of electricity that might be generated by atom-splitting in 15 years' time (a meagre 4%). For those in Delhi and in Washington, DC, looking to bury what Jaswant Singh, a former foreign minister, once described as “50 wasted years” of poor relations after 1947, it has become the test of all the recent professions of mutual good faith. America's Congress passed the bill last week, to the glee of India's government. But there is still a risk that the deal will be killed in Delhi by a combination of hostile Communists, bomb-loving nationalists and cross nuclear physicists.

Of the three groups, the Communists pose the biggest problem for the government, since it depends on them for a majority in Parliament. This week the Communist Party of India (Marxist) (CPIM), the largest of the parliamentary red brigade, described the bill as “grossly violative” of assurances given in August by Manmohan Singh, the prime minister, and rejected it as a basis for further negotiations.

Back then, Mr Singh assured Parliament that India would not be bound by laws passed by other countries. The Communists and other critics say that everything in the deal is contingent on continuing American approval, and so nuclear independence is being given up. They also dislike the bill's reference to the need to secure India's help in stopping Iran's nuclear-weapons programme. “The independence of India's foreign policy”, says Sitaram Yechury, a CPIM politburo member, “is non-negotiable.”

For the main opposition Bharatiya Janata Party (BJP) this is a chance to sound tough. The BJP was in power in 1998 when India blew a defiant, radioactive hole in the Thar desert in Rajasthan, so its charge that the bill is filled with “humiliating conditionalities” resonates. Bharat Karnad of the Centre for Policy Research, a think-tank, reckons that safeguarding the bomb could be a useful electoral cry for the BJP.

Some of India's leading nuclear scientists are also unhappy with the deal. They are proud of having developed a workable bomb and built their own reactors, despite sanctions that prevented them from importing technology or from attending conferences to discuss isotopes. A letter sent in August by a group of eight scientists claiming that “the lawmakers of the US Congress have modified, both in letter and spirit, the implementation of [the] agreement,” prompted Mr Singh's reassurance to Parliament. There is no reason to think they have changed their minds since.

Yet for all this, the deal does not need to pass a vote in India's Parliament. And the Communists do not actually want to topple the government and let the BJP in. Some of the things that they object to are in the preamble to the bill, rather than the technical provisions that will bind India. They could be tactfully ignored.

Even so, the squeeze on the government from three sides will complicate the next stage of the deal—the bilateral negotiation of what is known as a “123 Agreement” after the clause in the American Atomic Energy Act that permits co-operation with foreign powers. From there, all that needs to be done is to convince the remaining 44 members of the Nuclear Suppliers Group to agree to special arrangements for India. Oh, and then to persuade the IAEA, whose governing board includes Pakistan and China, to do the same. The nuclear windfall is still some way off.

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Weather control in China

It never rains

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From The Economist print edition

But it pours awards on the weather-fixers

CHINESE emperors were once thought by their subjects able to make it rain with their prayers. Chinese officials today put more trust in science. They are boosting spending on what they call the world's largest programme of artificial rainmaking. Its effects, however, are not much easier to quantify.

Just as grateful subjects praised the heavens for any rain that fell, the state-controlled media in China often report on the heroic contributions made by “weather-modification offices” whenever needed rain comes. These offices, set up over the past 15 years, deploy artillery, rocket-launchers and aeroplanes to seed clouds with chemicals (usually silver iodide) that encourage droplets to form and fall where needed, or prevent the formation of destructive hailstones.

China's efforts have been encouraged by an increasingly desperate shortage of water in the north. China also frets about the Olympic games in Beijing in August 2008, in a season when rainstorms are common. Making it rain away from big events is a key area of research. Last week officials awarded merit certificates to organisations involved in “weather guarantee” work for a summit with African leaders held in Beijing in November. Those honoured included the air force, Beijing's military command and the Second Artillery, which controls missiles. All were urged to do a good job at an Olympic rehearsal next year.

Artificial rainmaking is practised in many countries but its success is hard to prove. In recent years, China has been helped by big improvements in its weather-monitoring capacity. Its latest satellite, Fengyun-2D, was launched on December 8th with Olympic forecasting as a priority mission. It plans to launch another 22 weather satellites by 2020.

Mao Jietai of Peking University says circumstantial evidence suggests cloud seeding can increase precipitation by around 10%, but admits doubts about its real efficacy. Undaunted, the government has set an annual target for artificially induced rain nationwide for the next five years: around 50 billion cubic metres, or five times parched Beijing's average. As in imperial times, few will be able to refute claims of success.

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Kurdistan

America between the Turks and Kurds

Dec 13th 2006 | ANKARA AND WASHINGTON, DC
From The Economist print edition

As tension rises between the Turkish government and Kurds in Turkey and Iraq, the Americans are in a quandary

AFP

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IT IS looking ever more awkward for the Americans to keep two of their closest allies in the Middle East simultaneously sweet: Turkey and the Iraqi Kurds, who enjoy extreme autonomy in what is now the only stable part of Iraq. Kurds there are particularly rattled by several of the recommendations of the Iraq Study Group, co-chaired by a former secretary of state, James Baker (see article). The Turks, for their part, are increasingly angered by a renewal of attacks in Turkey by guerrillas of the home-grown Kurdistan Workers' Party (PKK). Moreover, they have never liked the idea of an autonomous Iraqi Kurdistan, seeing it as a magnet for Kurdish nationalism in the region—especially in Turkey itself.

Indeed, there is a growing chance that the Turkish army will, perhaps as the snows melt next spring, invade northern Iraq in an effort to clobber the PKK in its safe haven just inside Iraq (see next article). The Iraqi Kurds might then feel obliged to help their ethnic kinsmen fight back against the Turks. At that point, it is unclear what the Americans would do, for they deem it vital to stay friends with both the Turks, who are members of NATO, and the Iraqi Kurds, who have hitherto been by far the most pro-American group in Iraq.

Iraq's Kurds disliked the Study Group's suggestion that Iraq's central government should tighten its control over Iraq's provinces. They hated a recommendation that a promised referendum on Iraq's disputed oil-rich province, Kirkuk, be postponed. And they were horrified by the report's call for America to improve relations with Syria and Iran, which have both long suppressed Kurdish nationalism.

The Iraqi Kurds' biggest worry now is that an American wobble might hasten the feared Turkish invasion of their enclave. The Turks would argue that they merely wish to knock out some 5,000-odd PKK rebels in the mountains close to the border, then withdraw. But Iraq's 4m-5m Kurds fear that the Turks' true aim would be to ruin their successful experiment in self-rule, which has been inspiring Turkey's own restive Kurds, some 14m-strong.

“It's no longer a matter of if they [the Turks] invade but how America responds when they do,” says a seasoned NATO military observer. America would be loth to let the Iraqi Kurds help their PKK kinsmen fight back, since Turkey is a cherished NATO ally and a pivotal Muslim state in the region. Turkey's

airbase at Incirlik, in southern Turkey, is a hub for non-combat materiel flown in for American and allied troops serving in Iraq and Afghanistan.

The increasingly confident Iraqi Kurds sometimes helped Turkey fight against the PKK in the 1990s, but now they say they will no longer kill fellow Kurds. Instead, they have been strengthening links with their Turkish cousins, offering jobs and scholarships in northern Iraq. The Americans have been telling the Turks to stay out of Iraq, despite the PKK's provocations.

So far Turkey has obeyed, hoping that America would deal with the PKK itself. Its failure to do so is perhaps the biggest cause of rampant anti-American feeling in Turkey. In July Turkey's mildly Islamist prime minister, Recep Tayyip Erdogan, is said to have warned President George Bush, in several telephone calls, that he might be unable to restrain his hawkish generals after 15 Turkish soldiers were killed in PKK attacks in a single week. Some 250,000 Turkish troops then briefly massed on the Iraqi border, jolting the Americans into naming a former NATO commander, Joseph Ralston, as a “special envoy for countering the PKK” (his own description). But the PKK's attacks went on, despite its proclaimed ceasefire in September.

One big reason for Turkish restraint against the PKK in Iraq has been repeated warnings from the European Union, which Turkey has been bent on joining. But that restraint may weaken as the EU, or at least some of its leading members, continues to snub Turkey in its efforts to obtain membership.

If Turkish forces do invade Iraq, America's response will depend largely on the scope and scale. Most probably, they would not penetrate far into the country. “If they did, they would find themselves in the position that we do in Iraq, bogged down in a guerrilla insurgency,” says Henri Barkey, an American expert on the Kurds who served in the State Department during the Clinton administration.

Plainly, it is in America's interest to cut a deal between the Turks and the Kurds, including a plan to disarm the PKK for good, in return for wider cultural and political rights for Kurds in Turkey. Conceivably, Turkey might then be persuaded to accept the reality of an autonomous Iraqi Kurdistan; optimists point to burgeoning trade links across the border. But pessimists, especially in Turkey, say the Turks (as well as the Iranians) will never tolerate Kurdish independence, which is how they see the Iraqi Kurds' present extreme autonomy.

If it comes to a stark choice, it is hard to say which way the Americans would tilt. A vigorous debate is taking place in Washington. The self-described realists favour Turkey: the country is a tested ally and far bigger, richer and more powerful than today's fledgling Iraqi Kurdistan. The neoconservatives may favour holding on, at all costs, to the only solid ally within a federal Iraq, namely the Kurdish regional government. But the mood may recently have shifted in favour of the Turks. “The Iraqi Kurds are not the angels they were made out to be,” says an American official.

With Turks and Kurds digging their heels in, the Americans hint that they may be resigned to a limited Turkish operation that aims at PKK bases close to the Turkish border; and they would tell the Iraqi Kurds to stay put. But some in the Bush administration say the Americans should actually help Turkey swat the PKK in Iraq. “At this rate,” says another American official, “we're not only going to lose Iraq but Turkey too.” That, for America, is a prospect too ghastly to contemplate.

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Turkish Kurds in Iraq

Lonesome rebels

Dec 13th 2006 | KANDIL MOUNTAINS
From The Economist print edition

Turkey's Kurdish guerrillas may feel a cold wind of isolation

Get article background

IN A chilly mountainside hut, near the spot where Iraq's Kandil mountains meet Turkey and Iran, Murat Karayilan, a guerrilla leader, is watching the news. Snacking on sunflower seeds, he flicks from Roj TV, a Denmark-based satellite station that backs his Kurdistan Workers' Party (PKK) in its revolt against the Turkish state, to the mainstream channels beamed from Istanbul. The reception is excellent, the news less so. A year since—according to Kurds—Turkish agents firebombed a bookshop owned by a Kurdish nationalist in a mainly Kurdish town, Semdinli, attempts to find the culprits have come to nought. “Some people in Turkey”, he sighs, “don't want peace.”

To many Turks, especially those who have lost family members to PKK bullets since the rebellion started in 1984, Mr Karayilan's peacenik patter is a bit rich. Three months have elapsed since he announced the ceasefire that the PKK leader, Abdullah Ocalan, had urged from his Turkish prison cell, where he has been locked up since 1999, yet fighting between his Kurdish guerrillas and Turkey's army goes on, albeit a bit less fiercely than in the summer.

AFP

Karayilan says he wants peace too

Mr Karayilan insists that his men (and women, for the PKK prides itself on its commitment to sexual equality) are only replying to Turkish attacks. But, he hints, unless peace-seekers in Turkey's government soon “show their hand”—by giving the Kurds more cultural freedoms, ending Mr Ocalan's solitary confinement and announcing an amnesty for Kurdish militants in Turkey—the PKK may go on the offensive again next spring.

The PKK has dropped its demand for an independent country in Turkey's Kurdish-majority south-east, but it remains, as Mr Karayilan boasts, the “ultimate force” in the region. After a modest relaxation earlier this decade, Turkey's policy towards Kurdish nationalists and their aspirations is tightening again—and breeding discontent. Friend and foe acknowledge that the PKK could easily add to the 5,000-plus guerrillas it has, scattered across the border zone and operating in Turkey.

For all that, the group is not prospering as Mr Karayilan suggests; it is being squeezed by events beyond its control. Gone is the time when the PKK could successfully manipulate rivalries between Turkey, Iraq, Iran and Syria (countries that have, between them, parcelled out the historic region of Kurdistan) and move fighters with impunity between the four.

Iraq's current wobbly overlord, America, considers the PKK a terrorist organisation. Syria and Iran, fearing American hostility and apprehensive lest the autonomy enjoyed by Iraq's Kurds prove contagious, have cosied up to their former rival, Turkey. Mr Karayilan laments that both countries have got into the habit of handing over PKK militants to the Turks.

In Iran's case, at least, the PKK senses an opportunity. The defeat of Iran's own reform movement has reopened old divisions between the Shia Islamic Republic and its mostly Sunni Kurdish minority. Step forward the Party of Free Life of Kurdistan, better known as PJAK, the PKK's Kandil-based Iranian affiliate, which began attacking Iranian forces in 2004 and claims to have more than 2,000 members.

Guerrillas without a proper war; a personality cult whose object is incarcerated; a revolutionary force that has renounced revolution: to the uninitiated, Kandil resembles a never-never land whose inhabitants eagerly imbibe Mr Ocalan's “democratic-ecological paradigm” in timber schoolrooms and extol the virtues of sexual abstinence, the better to prosecute a cause whose ultimate goal has been lost from view. But no amount of fresh-faced zealots can conceal the PKK's quandary.

Fight or die?

Unless it fights, suggests a former PKK militant in Arbil, the capital of Iraqi Kurdistan, the group will unravel, as it nearly did in 2003, before defectors were assassinated or silenced. But if the PKK returns to full-scale war, America and the Iraqi Kurds will find it harder to resist, as they do at present, Turkey's demands that they act against it—though senior Iraqi Kurds are wary of challenging fellow Kurds. That need not take the form of a military assault; an embargo on food, fuel and arms may be as effective. In any event, it may have been Iraq's Kurdish leaders who persuaded the PKK to announce a ceasefire.

For its part, America wants to keep Iraqi Kurdistan, the lone bright spot in its long Iraqi night, at peace. But “no country has ever been able to secure these mountains,” smiles Mr Karayilan. “How are the Americans going to do what the Turks have struggled for years to achieve?”

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Iraq

How dare you

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Iraq's politicians reject America's Baker-Hamilton report

SOME American conservatives reacted with near-apoplexy to last week's report to Congress by the wise men (and one woman) of the Iraq Study Group. Most Iraqi politicians hated it too. President Jalal Talabani, a Kurd, called the report an “insult” to Iraq's people. One of the country's most powerful Shia leaders, Abdulaziz al-Hakim, of the Supreme Council for Islamic Revolution in Iraq, said it contained “inaccurate information based on dishonest sources”, while other Iraqi officials dubbed its recommendations “half-baked” or unrealistic. Not surprisingly, the suggestion that most American troops could leave by 2008 was hailed by the insurgents as proof of their impending victory over the occupiers.

Divided as they are, Iraqis have many different reasons for sniffing at the report. Some Sunnis fear that an early American withdrawal will leave them at the mercy of a government they deem a puppet of Iran. Kurds, for their part, were particularly irked by the suggestion that a referendum on the disputed province of Kirkuk, which they say must be part of their autonomous region, should be delayed.

But the most common reaction, at least among those who now dominate the Iraqi government and who suffered for fighting against Saddam Hussein in past decades, is that the report echoes the attitude of American officials in the 1980s and early 1990s, who seemed to prefer Sunni tyranny to the chaos they feared might ensue if a more democratic system were encouraged. “We can smell the attitude of James Baker [the former secretary of state who co-chaired the report] in 1991 when he liberated Kuwait but left Saddam in power,” said Mr Talabani bitterly.

Other Iraqis suspect that former members of the once-ruling Baath party who now back the insurgency hope that the terrorism will become so bloody that the situation will spin right out of control—and force the Americans to hand power back to Iraq's former Sunni rulers on a plate. By this analysis, the Iraq Study Group report rewards terrorism and allows a Baathist master plan to take shape on schedule.

In any event, many people in Baghdad say the report merely urges what the American ambassador to Iraq, Zalmay Khalilzad, has been trying to achieve for more than a year: bigger concessions by the Shia- and Kurdish-dominated government to the Sunnis in order to quell the insurgency. A recommendation that raised many hackles in Iraqi government circles was to bring former ruling Baathists back into office. Another proposal ill-received in some quarters was to involve Iraq's neighbours in regional peace efforts.

And yet, once this flurry of indignation has faded, the report may, given its wide support in America's Congress, help cajole Iraq's government towards making those concessions. A fresh council on national reconciliation is expected to be held soon.

Hopes are not high. The most powerful Sunni parties have been participating in politics since last year, without managing to stem the spate of bombings by their rebel co-religionists. Reconciliation pledges by senior members of the present Shia-led government have failed to curb the activities of death squads run by Shia militias. Indeed, more and more Iraqis wonder whether any policy changes by their government can now do much to stop the bloodshed and make peace.

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Iran

Denying the Holocaust

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Iran's president seeks to bolster his strange interpretation of history

Reuters

Holocaust-denier hugs a helpful rabbi

A LONG-ADVERTISED international conference held this week in Iran's capital to discuss the Holocaust made little pretence at neutrality or objectivity. Most speakers challenged the accepted facts of the Holocaust or accused Jews of skewing the facts to help justify the establishment of the Jewish state. Afterwards, participants were invited to meet President Mahmoud Ahmadinejad, who had called for the event following his assertion last year that the Holocaust was a myth.

A group of Orthodox rabbis from a fringe group, Jews Against Zionism, was feted by the authorities and placed in the front row of the hall in an effort to show that the event was not anti-Semitic. Officials smiled when one of the group vilified Israel and praised Mr Ahmadinejad.

The list of speakers included a former Ku Klux Klansman, David Duke, and well-known Holocaust deniers, such as Fredrick Töben, an Australian of German origin, and Robert Faurisson, a Frenchman. An exhibition in the same building was reached by a stairwell decorated with posters comparing Holocaust “myth” with “truth”. The works of Holocaust-deniers such as David Irving, who is in prison in Austria, were displayed in glass cabinets.

Iran's foreign minister, Manuchehr Mottaki, opened the Holocaust conference by favourably comparing his country's spirit of “scientific and scholarly” freedom with the West's. On the second day, President Ahmadinejad declared that “Israel is about to crash, the Soviet Union disappeared, and this will also be the fate of the Zionist regime...Humanity will be free.”

Government newspapers widely reported the conference under front-page headlines alongside photographs of the rabbinical contingent. But neither of the two leading government papers reported the insistence by one of the rabbis that the genocide suffered by European Jewry had been “confirmed by innumerable eyewitnesses and fully documented again and again”.

In fact, many Iranians are pretty well oblivious to the Holocaust; they are not taught about the event or even the second world war in school. Though translations of revisionist histories (such as Mr Irving's) are widely available in Tehran bookshops, most Iranians questioned on the subject said they knew nothing about it or agreed with the standard accounts of the genocide.

But Iranians may not have been the audience the president had in mind. Many Iranians see the Palestinian conflict as something for Arabs, not Persians, to deal with. This president, however, seems to relish thumbing his nose at the West. And why not lie about the biggest and best-documented crime in history if doing so casts doubt on Israel's raison d'être and so courts radical Muslims elsewhere?

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Liberia's president

Peace isn't enough

Dec 13th 2006 | GUTHRIE AND MONROVIA
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The people still want a lot more

AS HUNDREDS of supporters sing a rousing chorus of “Sweet Mother, Liberia Needs You”, Ellen Johnson-Sirleaf, Africa's first elected female head of state, starts to dance and then sing along. The 68-year-old former World Banker, who a year ago won Liberia's first elections after a dreadful civil war, may not be your average president. But she remains Liberia's biggest hope for a lasting peace.

Fourteen years of fighting left some 250,000 of Liberia's 3m-odd people dead, forced many more to flee, and destabilised the whole region. Peace has cheered west Africa but Liberia itself is still devastated. “Over the last quarter of a century it lost 90% of its income,” says Alan Doss, head of the UN mission in the country. “According to the IMF, even if the economy grows at 10% per annum for the next 25 years, which would be pretty good by any standards, they will be back to where they started in 1980.” NGOs provide 90% of health care, roads are abysmal and other public amenities barely exist.

Some 85% of Liberians, many of them dangerously disgruntled former soldiers, are jobless. The UN provides 15,000 peacekeepers, but they will not stay forever. Recently UN troops helped persuade rowdy ex-combatants to leave the Guthrie rubber plantation, one of Liberia's biggest. Now a squad of blue helmets lives alongside Liberian policemen; a Liberian “interim management team” runs the plantation. Next to the police camp, a small market has sprung up, thanks to a new atmosphere of security. It shows what can be achieved, if outside forces buttress Liberia's beleaguered local institutions.

But in general the Liberian state hardly exists. For example, the 100,000-plus people of Maryland County, in the south-east, are served by just 23 policemen, of whom only 16 have had formal training. Urban crime everywhere has risen fast. Civil servants are ill-paid and ill-qualified: the education system was all but destroyed, while ministries were stuffed with the supporters of warlords. Even now, little gets done.

An impressive finance minister, Antoinette Sayeh, has managed to raise revenue while seeking to cut corruption and calling on foreign creditors to forgive Liberia's crushing external debt of $3.7 billion. So far, the World Bank and other international bodies have praised Ms Johnson-Sirleaf's government. Through a so-called Governance and Economic Management Assistance Programme, known as GEMAP, the World Bank, UN and others oversee all big contracts. But progress is slow. “It's going to take a while,” says the president. “It won't be a quick fix, we won't do it in one year or two but we're going to be making progress year after year...In five years we'll have made a big difference.”

Can Liberia's impatient people wait that long? The president wants to provide “dry-season deliverables”—projects like road building that can be completed before Liberia's heavy rains begin again. But with an annual budget of only $129m, a fraction of what the UN's peacekeepers cost in a year, she spends a lot of time abroad soliciting extra help. Indeed, the frequency of her foreign trips has caused some carping back home.

But her supporters say her appearances abroad—for instance, on the Oprah Winfrey show in America—are encouraging foreign investment and aid. Proof of that, they hope, will be evident in February, at an international donors' conference on Liberia in Washington, DC. The worry, however, is that a year after Ms Johnson-Sirleaf's election, and three years after the civil war ended, humanitarian agencies and donors are switching attention to other more immediate crises.

So Liberia is still on edge. If the government fails to build on the small gains of the past year, civil unrest, or worse, could resume. Outsiders and Liberians have put all their trust in Ellen, as she is universally known. If nothing else, Liberia is at peace. “Ellen is doing fine,” says a former fighter. “After all, one is better than zero.” But that is still barely enough.

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Africa's expatriates

Costly postings

Dec 13th 2006 | JOHANNESBURG
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Some of Africa's capitals are the most expensive in the world

WHEN it comes to their wallets, seasoned travellers and worldly expatriates often moan about Tokyo, London or New York. They obviously have not been hanging around Africa. A recent survey by ECA International, which advises multinational companies how to look after their expatriate staff, rates Harare the most expensive city for such foreigners in the world.

But Zimbabwe's capital is not an isolated African case: Angola's Luanda comes second and Congo's Kinshasa fifth, just behind Oslo and Moscow. Even Gabon's Libreville is deemed more expensive than Tokyo. Why are cities in some of the world's poorest countries also the priciest?

In Harare, record-breaking inflation, shortages of basic goods and an overvalued official exchange rate all keep prices translated into foreign currency dizzyingly high. In restaurants, glossy menus no longer carry prices, which get printed separately: with inflation at almost 1,100% a year, the cost of meals changes too fast. Toothpaste, at $8 a tube in Harare, is almost three times more than in New York and eight times more than in Johannesburg. The price controls that the government is slapping on a lengthening list of goods and services are likelier to boost the black market than cut inflation to tolerable levels. Alas, last month's Zimbabwean budget gave little evidence of serious reform, so money will probably continue to be printed willy-nilly. Expensive inconveniences for expatriates mean life or death for millions of wretched Zimbabweans.

In Luanda, on the other hand, the economy is booming and inflation a mere 12%. But after decades of war, not much is produced at home, bar oil and diamonds, so most things are imported and command high prices. Supermarkets are few. Foreigners tend to eat at just a handful of restaurants where their digestive systems may not suffer and where dinner for two costs $150-plus, making even London look cheap. Foreigners with a sweet tooth may feel sour in Kinshasa, where a kilo of sugar costs twice as much as in New York.

Expatriates feeling ripped off in Angola, Zimbabwe or Congo need not despair: they can move to the kingdom of Lesotho, whose capital, Maseru, is rated in the survey as the cheapest place on earth—for foreigners.

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French foreign policy

The glory days are passing

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Reuters

France debates the need to move beyond its traditional spheres of influence

BARELY two weeks after she was chosen as the Socialist candidate in France's 2007 presidential election, Ségolène Royal flew off on a four-day tour of the Middle East. Even as she shuttled from Lebanon to Israel, via Jordan and Gaza, Dominique de Villepin, the prime minister, was in Africa, taking in Chad and South Africa. In the past ten days President Jacques Chirac has entertained the Israeli foreign minister, Tzipi Livni; Egypt's president, Hosni Mubarak; and Morocco's prime minister, Driss Jettou. Ms Livni also dropped in on Nicolas Sarkozy, the interior minister and leading centre-right presidential hopeful.

In short, France's politicians are busy as usual toiling away in their country's traditional spheres of influence: Africa and the Middle East. Yet four months before the election, some hard questions are being asked about the nature and value of these old links, mainly to French-speaking ex-colonies, and in particular about the scale of France's military commitment there.

The chief preoccupation is the French contingent of 1,700 troops in Lebanon, part of a 10,000-strong United Nations peacekeeping force that until February has a French commander, Alain Pellegrini. For reasons of international credibility, as well as history and friendship, France had little choice but to contribute to the UN force in a country that it once ran. Yet the mission makes the French edgy. In 1983 suicide bombings in Beirut, the Lebanese capital, killed 58 French and 242 American soldiers. Given Lebanon's fragility and repeated interference by Iran and Syria, the French fear a repeat.

The Lebanon engagement has also led to strained exchanges with Israel, already wary after decades of French pro-Arabism. In late October French soldiers narrowly avoided what the defence minister, Michèle Alliot-Marie, called a “catastrophe”: they almost shot at Israeli fighters that had flown into Lebanese airspace in an “attacking posture”, provoking outrage in Paris.

Lebanon may be France's most visible military commitment, but it is far from being its biggest. All told the country has about 18,000 soldiers abroad, some 13,000 of them involved in operations (the rest are stationed there). Decades after decolonisation, these troops are still heavily concentrated in Francophone Africa.

The biggest French contingent, of nearly 3,500 soldiers—more than twice the size of the Lebanon force—is stuck in Côte d'Ivoire, with which relations have been tense ever since nine French soldiers were killed in

an attack on their base two years ago. Another 1,000 soldiers are part of the European Union peacekeeping force in Congo. A further 1,200 in Chad risk having to face down a rebel uprising there, as well as the prospect of hostilities from militias based in the Central African Republic and Sudan. Besides these, nearly 5,000 soldiers are spread between permanent bases in Djibouti, Senegal and Gabon.

France has not limited its troops to ex-colonies. It is the third-biggest financial contributor to NATO. It still has 1,800 troops in Kosovo, and another 1,100 in Afghanistan, where it commands the NATO operation in the central region and also contributes to a special-forces counter-terrorism venture. But French military engagements are still skewed towards battered bits of Africa. In the 21st century is this the most efficient way to deploy France's military might to project its voice and to defend its interests?

Where the Chinese unabashedly pursue commercial interests in Africa, and the Americans focus on business and counter-terrorism, France is often left to play the role of regional gendarme. At times its performance has been questioned. Rwanda last month broke off diplomatic relations with France, after a French judge issued arrest warrants for nine close associates of the Rwandan president, Paul Kagame. He responded by once again accusing the French of arming the regime that carried out the 1994 genocide. Today, as belatedly in Rwanda, the proximity of French troops makes them easy candidates for any African peacekeeping emergency.

Business in Francophone Africa, meanwhile, is waning. Even Total, the French oil giant, now has most of its African production in non-French-speaking Nigeria and Angola. “The French posture in Africa is reaching breaking-point,” argues François Heisbourg, director of the Foundation for Strategic Research. “We're taking all the knocks, but none of the returns.”

Diplomatic traditionalists reply that France is bound by its history and moral responsibility to stick it out in Africa. And language is still a powerful bond: *la Francophonie* gives France much of its global standing. The launch last week of France 24, a non-stop television news channel designed to report the news “through French eyes”, was but the latest attempt to make France's voice heard.

Even this argument is being challenged. In a controversial article in October's French edition of *Foreign Policy*, François Roche, its editor, argues that France has been so preoccupied by a desire for glory and grandeur that it has failed to notice the huge gap between regions where its future interests will lie (Russia, China, India, Brazil and Mexico), and those where its diplomatic and military efforts are concentrated (Africa and the Arab world).

Could all this change under a new president? Whoever is elected may well order a full defence review, which would have to look long and hard at Africa. For his part, Mr Sarkozy, with his tough immigration policy, has a hard-nosed approach. In a bold speech in Benin earlier this year he declared that it was time to stop looking at the foreign presence in Africa as a zero-sum game of influence. France, he said, needed a more transparent, less paternalistic relationship with Africa. “Relations between modern states must not depend only on the quality of personal links between heads of state,” he added, in a thinly disguised jibe at Mr Chirac and the phenomenon known as *Francafrique*, “but on a frank and objective dialogue.”

As for the Middle East, both Mr Sarkozy and Ms Royal want to warm up relations with Israel, suggesting that under either France may temper its Arabist instincts. Israel knows this. Two days before meeting Mr Sarkozy in Paris, Ms Livni dined with Ms Royal in Jerusalem. To Israel's delight, Ms Royal has stuck by her unorthodox line that Iran should be stopped from enriching uranium even for civilian use. France has usually argued that its influence in the region depends on its credibility with Arab friends. The next president may put that doctrine to the test.

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Brussels v the English language

Babelling on

Dec 13th 2006 | BRUSSELS
From The Economist print edition

How more official languages could eventually mean less diversity

IN THEIR loftier moments Brussels politicians say that languages are an expression of the European Union's unity in diversity. What they seldom admit is that languages are a logistical and expensive headache, as well as a cause of nationalistic squabbles. All these could increase when the tally of official languages in the EU rises from 20 to 23 on January 1st 2007, with the addition of Romanian, Bulgarian and Irish.

There is impeccable democratic logic for the EU to do business in the language of its citizens: hence the addition of Bulgarian and Romanian when these countries join next month. It is less obvious why Irish is being added to the list. Although it is an official language of Ireland, it is a minority one that the Irish government declined to use when it joined in 1973. The government concedes that less than half the population can speak it and a mere 5% actually use it. But Charlie McCreevy, Ireland's European commissioner, insists it is central to Irish cultural identity.

Asserting cultural identity may be more important in a growing club. Ireland's decision has raised the stakes for other countries. Last year Spain requested semi-official status for Catalan, Galician and Basque. The Spanish government will foot the bill for translation services for Spaniards who prefer to use those languages. Welsh nationalist politicians are now lobbying the British government to get the same deal for Welsh, although not so far to any effect.

Getting national governments to pick up the tab for using regional languages can keep the EU's costs down. In 2005 the union spent some €1.1 billion ($1.4 billion) on translation and interpretation. This pays for staff to interpret at 11,000 meetings a year and to translate more than 1.3m pages of text. One result of the latest enlargement is that the commission has instructed officials to write shorter, snappier communications that cost less to translate. But not all problems are so easy. A plan in 2002 to simplify European patents failed when some countries blocked it because the new patent would be only in English, French and German. Subsequent efforts to find a compromise have foundered because of high translation costs.

English, French and German are the main working languages of the European Commission, a truce agreed some 20 years ago. At that time half of all EU documents were drafted in English. Now it is around two-thirds, as enlargement to Scandinavia and eastern Europe has created a bigger group of people with English as their first choice of second language. This points to an unsettling conclusion for advocates of multilingualism: in a union of many languages, increasingly there is but one language.

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Eastern Europe's stars

The dynamic duo

Dec 13th 2006 | RIGA AND TALLINN
From The Economist print edition

Europe's booming Baltic corner

DOUBLING your living standards every six years would seem a breakneck pace of growth even in east Asia. In Europe it is unheard of. But two Baltic countries, Estonia and Latvia, are growing at 11.6% and 10.9%, respectively. This speed is unexpected. Of 13 forecasts looked at last year by the European Bank for Reconstruction and Development, the highest for Estonia was 6.4%; even Estonia's own central bank reckons that the long-term growth rate is only 7-8%.

The pair's high growth is an exceptional product of good luck and good policies. Both countries are stable, business-friendly and cheap, and lie close to large, rich markets. They have flat taxes, cleanish government, balanced budgets and stable currencies pegged to the euro. Foreigners like all this: Estonia is Europe's biggest recipient per head of foreign investment.

Consumption is soaring in both countries, as is credit. Estonia will see money-supply growth of 33% this year; in Latvia mortgage lending rose by 90% in the year to October, and credit-card lending doubled. That reflects the rise of a western-style financial industry that lends in a way yet to develop in most of eastern Europe. “Foreign banking is a big reason for our success,” says Andres Lipstok, governor of Estonia's central bank.

Can the good times last? Signs of a property bubble abound. The authorities want to tighten banks' lending. If a crash came, its effects should be contained by outside ownership of banks (99% in Estonia, and 80% in Latvia): foreign shareholders, not local taxpayers, would suffer if loans went bad. Both countries have huge current-account deficits (17.9% of GDP in Latvia and 12.5% in Estonia). But for poor economies trying to catch up on 50 years of development missed under communism, a thirst for imported technology is commendable. Balance sheets are strong—indeed, Estonia has no net foreign debt.

The bigger worries are twofold. Even as the Baltic hot rods scorch across the tarmac towards European living standards, they lack any brakes. Monetary policy cannot contain inflation (their currency boards give the two countries no independent control over interest rates). Fiscal policy works in theory but not in practice: Estonia already runs a big budget surplus, and Latvia is not far behind.

AP

Wages are spiralling thanks to a boom in labour-thirsty industries such as construction, retail and tourism. Both countries are struggling to integrate Soviet-era immigrants, so importing more labour from the east is hugely unpopular. But tempting back the many locals—especially 100,000-plus Latvians—who have moved to work abroad is tricky. Latvia's president, Vaira Vike-Freiberga (herself a returned émigré), says it is not just the money: Latvians find that foreign bosses and colleagues treat them more kindly and respectfully than their compatriots do, and public services such as health care and transport are better abroad.

So far, soaring productivity growth has masked the labour market's tightness. But that will not last. The big task for both countries is to move to an economy based on brain not brawn. That requires a liberal immigration regime—at least for skilled foreigners—and a transformation of the calcified, self-satisfied education system. Neither is yet in sight: in both

countries, smugness rules.

Latvia's coalition government, closely tied to local big business, shows little appetite for reform. Estonia, which has a parliamentary election in March, looks more hopeful. Its star politician, Mart Laar, is now leading the opposition after a break evangelising for the flat tax that he introduced when prime minister in 1994. His party slogan is “happiness does not lie in money”. That would once have been laughable. Now it sounds quite good.

Mart Laar: a star turn still to come

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Scandinavia's far right

Nordic nasties

Dec 13th 2006 | COPENHAGEN
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Far-right parties on the march

Reuters

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Powerful Pia

PIA KJAERSGAARD, poster-girl of Denmark's far right and leader of the Danish People's Party, has a new feather in her cap. A poll published last month claims she is the most powerful woman in the land, coming behind only two men: Anders Fogh Rasmussen, the prime minister, and Thor Pedersen, his finance minister. Ms Kjaersgaard is not even a member of the Danish government. But the government is a centre-right minority coalition that, as Ms Kjaersgaard seldom fails to point out, depends on the votes of her party to remain in power.

Her position as informal ally and coalition prop has served Ms Kjaersgaard well ever since Mr Fogh Rasmussen formed his first government in 2001. In every annual budget Ms Kjaersgaard has traded her support for concessions to her favourite causes, notably tighter immigration rules and more handouts for pensioners. The 2007 budget deal was no exception: Ms Kjaersgaard secured DKr2 billion ($355m) for her own pet projects.

Such compromises have allowed the Danish People's Party to portray itself as a defender of the welfare state. The party also often purges its more extremist elements. Yet many Danes remain convinced that it is a fundamentally racist group. Two months ago, a group of 66 Danes, drawn mainly from the arts and academia, sought to get eight party members tried in court on charges of racism.

None of this seems likely to affect Ms Kjaersgaard's cosy relationship with the prime minister. Nor will it disturb her grassroot supporters, who now argue that the party deserves a formal place in the coalition government after the next election in 2009. Ms Kjaersgaard says such demands are premature, but adds that her voters would have a “natural expectation” to “enter government at some stage”.

Despite the region's Social Democratic history, Ms Kjaersgaard is not alone in Nordic countries. Indeed, Siv Jensen, leader of Norway's Progress Party, is even more explicit in her demands. Buoyed by polls making her party Norway's most popular, Ms Jensen now declares that she is ready to take over as prime minister after the 2009 election. Local pundits give her a fighting chance. Besides her youth (she is 37) and appeal to female voters, Ms Jensen has gained from the political retirement of Kjell Magne Bondevik, a former Christian Democratic prime minister who fought to exclude the Progress Party from office.

In Sweden, the rise of the far right is happening at a lower political level. The recent general election produced no parliamentary seats for the Sweden Democrats, although they almost doubled their share of the vote, to 2.9%. But the party made big gains in local elections, winning seats on some 130 local councils, up from only 30 previously. These seats bring tangible power. Under the Swedish legal system, appointments of lay judges to district and county courts are made by political parties. The Sweden Democrats can now appoint around 300 such judges, including one to the immigration court. That is an enviable power for a party which has its roots in the xenophobic “Keep Sweden Swedish” movement.

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German higher education

Jacobs's ladder

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How private universities could help to improve public ones

THERE are many rich Germans. In 2003 private assets are estimated to have been worth €5 trillion ($5.6 trillion), half of which belongs to the richest tenth of the population. But with money comes stinginess, especially when it comes to giving to higher education. America devotes twice as much of its income to universities and colleges as Germany (2.6% of GDP, against 1.1%) mainly because of higher private spending—and bigger donations.

Next year's figures should be less embarrassing. In November Klaus Jacobs, a German-born billionaire living abroad, announced that he would donate €200m to the International University Bremen (IUB)—the biggest such gift ever. It saved the IUB, Germany's only fully fledged private and international university (with 30 programmes and 1,000 students from 86 countries) from bankruptcy. It may also soften the country's still rigid approach to higher education.

German higher education has long been almost entirely a state-run affair, not least because universities were meant to produce top civil servants. After 1945 the German states were put in charge, deciding on such details as examination and admission rules. Reforms in the 1970s made things worse by strengthening, in the name of democracy, a layer of bureaucracy in the form of committees of self-governance.

Tuition fees were scrapped in the name of access for all. But ever-rising student numbers then met ever-shrinking budgets, so the reforms backfired. Today the number of college drop-outs is among the highest in the rich world, making tertiary education an elite activity: only 22% of young Germans obtain a degree, compared with 31% in Britain and 39% in America. German universities come low in world rankings, so good students often go abroad.

In the 1980s it was hoped that private universities might make a difference. Witten-Herdecke University, founded in 1980, was the first. Teaching at IUB, which will change its name to Jacobs University soon, began in 2001. Today, there are 69 (non-faith-based) private institutions of higher learning, up from 24 a decade ago. There is growing competition, particularly among business schools.

At the same time the states have been introducing private enterprise into higher education. In 2003 Lower Saxony turned five universities into foundations, with more autonomy. Others have won more control over their own budgets. Some states have also started to charge tuition fees. And in October a jury announced the winners of the first round of the “excellence initiative”—a national competition among universities for extra cash.

Yet all this has led to only small improvements. Private universities educate only 3% of Germany's 2m-odd students, which may be why they find it hard to raise money. It also explains why many focus on lucrative subjects, such as the Bucerius Law School in Hamburg. Others have come to depend on public money. Only recently have rich individuals' foundations made big investments, as at IUB or at the Hertie School of Governance in Berlin.

Public universities, meanwhile, still have not been granted much autonomy. There is less direct control, but far more “administered competition”: a new bureaucracy to check the achievement of certain goals. This might all be avoided through price competition, but tuition fees, now €1,000 a year on average, are fixed centrally by each state. The excellence initiative is a mere drop in the bucket.

That is why Mr Jacobs's donation matters. For the first time, Germany will have a private university worth the name and with a solid financial footing (if it keeps up its academic performance, that is: Mr Jacobs has promised to donate €15m annually over the next five years and another €125m in 2011 to boost the

endowment, but only if things go well). If it works, other rich Germans may be tempted into investing in higher education too.

Even so, private universities will play a small part in German higher education for the foreseeable future. This does not mean that public universities should be privatised. But they need more autonomy and an incentive to compete with one another—whether for students, staff or donors. With luck, Mr Jacobs's gift will not only induce other German billionaires to follow suit, but also help to persuade the states to set their universities free.

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Tempelhof airport

Flying lessons

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A modest proposal for Tempelhof airport

GERMANY'S capital has many problems, but two stand out. It cannot afford three fully-fledged universities; and it does not know what to do with Tempelhof airport, which is to be closed in October 2007. Both problems would be solved at a stroke, if one economist's dream could come true.

Reuters

A terminal temple

Before the second world war Berlin made do with two universities, the Technical University and Berlin University, an intellectual powerhouse. But in the cold war, when the Soviet administration took over Berlin and renamed it Humboldt University, West Berlin responded by founding the Free University. Even today, all three institutions remain separate. As a result, they are too small, especially after recent budget cuts.

Foreigners may wonder why Berlin is considering closing Tempelhof, a Third Reich airport and site of the famous airlift that guaranteed the city's survival during the Soviet blockade of 1948-49. The terminal is the second-largest building in Europe. But its runway is too small for big passenger aircraft. Ending air traffic at Tempelhof was also a condition for the building of a new international airport at Schönefeld, outside the city. This is why the hopes of some that Tempelhof could become a hospital airport for rich people are likely to be dashed (unless a court cancels the proposed closure later this month).

All of this makes an idea of Michael Burda, an economics professor at Humboldt University, tantalising: to reunify his alma mater with the Free University, give the new institution greater autonomy and make Tempelhof its home. This “Free Humboldt University” would not only have one of the world's more intriguing campuses (imagine top professors jetting into this Third Reich colossus for lectures), but also help Berlin to trim its hard-pressed budget.

Alas, Mr Burda's idea of a Berkeley at Tempelhof is unlikely to fly. Strong forces of gravity will keep it down: both universities hate the idea of a merger; and private investors would have to put up much of the necessary cash. Perhaps Jürgen Zöllner, Berlin's new senator for education, who has a reputation for being innovative, will take a shine to the notion. Miracles can happen at Tempelhof—as the Berlin airlift showed.

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Charlemagne

Enlargement troubles

Dec 13th 2006
From The Economist print edition

How did the European Union come to this pass with Turkey—and with enlargement in general?

Get article background

IT MIGHT have been worse. On December 11th European Union foreign ministers agreed to suspend eight out of 35 “chapters” in Turkey's negotiations to join the EU. This punishment was made only marginally more tolerable by the knowledge that Germany wanted a hefty 21 chapters frozen, and by the news that the EU had promised to re-examine (though not lift) its economic blockade of Turkish-controlled northern Cyprus. But the Turks were swift to rail at the EU's “injustice”.

Turkey is not the only country in the south-eastern corner of Europe whose relations with the EU are now in limbo. Talks with Serbia over an association agreement were called off in May. And, seven years after the war in Kosovo, the EU has little idea what to do with that independence-seeking statelet.

There are specific reasons in each case. The Serbs are being punished for not handing over General Ratko Mladic to The Hague war-crimes tribunal; the Turks for not opening up ports and airports to traffic with Cyprus. But that there are troubles with enlargement across the board is more than just a coincidence. The assumptions and justifications that lie behind the policy are being challenged as never before.

For the past ten years these assumptions have run roughly as follows. There are gains for both applicants and existing members from expansion. The neighbours' wish to join is not a matter of partisan politics, so their populations will be ready to back EU membership even if sacrifices have to be made for it. The EU can thus shore up reformers in applicant countries. And any country that refuses to fit the mould (eg, Belarus) does not matter and can be ignored.

Meeting the conditions of membership is thus, in essence, a technical rather than a political or strategic issue. The strategic choice has been made by history: Poland (say) is obviously a European country and was always going to join the EU. Progress towards membership is therefore made by bureaucratic procedure, not political decision: you plug away at the details of, for example, drawing up national accounts, and all will be well. And once countries join, they are supposed to slot in seamlessly. That does not necessarily mean they will obey every item of EU law (even founder members do not do that). But there will be no significant backsliding, nor any unpleasant surprises.

For most of the past two decades, these assumptions held good. Enlargement was a stunning success.

Bureaucratic plodding worked fine. The national consensus in favour of membership remained solid. But now all this is changing.

It has been clear for some time that popular support for enlargement is falling in both would-be and existing members. As a result, enlargement is no longer a subject of consensus, but rather an elite project (like the EU itself). So the old beneficial dynamic—Westernising elites apply for membership, Brussels supports them, they reap domestic benefits from accession—no longer works. Both Turkey and Serbia have pro-European governments. But the Turks do not want to open up to Cyprus, and the Serbs are unwilling to arrest their general, not least because both countries face elections next year—and in those elections the EU has become an electoral liability. Similarly, support for enlargement has become a liability in many existing members.

Turkey shows that meeting the conditions of membership is no longer, as the Europeans once assumed, just a technical matter. The requirement at the heart of its current dispute with the EU—the opening of its ports to implement a customs union—certainly sounds procedural. But to the Turks it implies recognising the Greek-Cypriot government as the only legitimate one on the disputed island. That is clearly a political not a technical decision. The point is that applicants' domestic or foreign-policy concerns are now coming into conflict with a classic feature of the Brussels bureaucracy: that everything on a list has to be ticked off and none of it can be subordinated to broader concerns. This may not have mattered in the negotiations with the central European countries because they were not asked to make big new strategic choices. But Turkey and Serbia have been; and the bureaucratic fussiness of the union does not change just because countries' strategic interests are at stake.

The loss of leverage

The assumption that countries will behave well after they become members has also taken a knock. To many Eurocrats, 2006 was eastern Europe's year of living dangerously: there were riots in Budapest, scary populists joined governments in both Poland and Slovakia and there is no government at all in the Czech Republic. Arguably, these events show the opposite of what the doomsters claim: even in a bad year, the travails of the new members have not disrupted the union much. But the critics still complain that expansion is a process that continues to cause trouble even (or especially) after it is over and the applicants have become members.

The challenges to the old assumptions about enlargement explain why so many Europeans have begun to turn against the idea and towards other thoughts, such as reviving their rejected constitution. But they do not justify that reaction. The EU has benefited hugely from its expansion, through larger markets and the creation of more efficient pan-European multinationals (among other things). It would be damaged by enlargement's failure, which could easily produce foreign-policy horrors in the eastern Mediterranean or in the western Balkans. Because of this the EU summit is wrestling with a problem that goes well beyond Turkey: how to keep the whole process of expansion alive at a time when its underpinnings are being eroded. To judge by the bureaucratic manoeuvring beforehand, and the deep divisions between countries about the future size and role of Europe, the summit may mark a new low in what was once seen as the EU's finest achievement.

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Monolingual Britain

They all speak English

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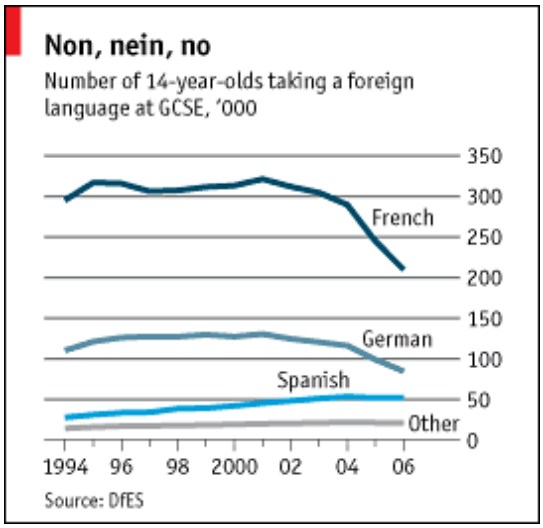
As bilingualism becomes the norm worldwide, the future of English has moved. Prepare yourself for decaffeinated "Globish"

THE image of the Briton abroad, speaking English slowly and loudly in the expectation that eventually the natives will get the idea, is a stereotype with a good deal of truth behind it. According to a survey by the European Commission last year, just 30% of Britons can converse in a language other than their own (only Hungarians did worse). Bad as these figures are, they are flattered by the one in ten residents of Britain who speak a language other than English at home.

The next generation is unlikely to do even this well. Fewer young people are studying languages in school, a trend that has accelerated since 2004, when the government allowed English schools to make foreign languages optional for students aged 14 and over (see chart). Even those who are keen on languages often drop them at this stage now, as schools offer a narrower choice of languages and schedule them against other subjects. Around four in five of all English state schools allow their students to abandon languages at 14 and some private schools are starting to follow suit. In 2006 only half of all students took a foreign-language GCSE exam—the standard test for 16-year-olds.

Rattled by the rush to the exit, in October the education secretary, Alan Johnson, asked Lord (Ron) Dearing, a former boss of the Post Office, to look at the state of language teaching in English schools. His interim report, due on December 14th, is expected to recommend that languages be made compulsory in primary schools but remain optional after the age of 14.



Whatever Lord Dearing's recommendations, the place of languages in the secondary-school curriculum may no longer be the government's to decide. Young people hoping to do a degree at a prestigious university may find themselves having to study a foreign language until at least the age of 16. On December 12th the committee on admissions policy at University College London (UCL) voted to phase in a requirement for all applicants to have a GCSE or equivalent in a modern foreign language. Michael Worton, the committee's chairman, says the idea is to persuade young people—and schools—that studying a language is necessary and worthwhile.

Other universities are also concerned. On December 3rd a letter calling for the government to restore the compulsory status of language teaching after 14 was published in *The Observer*, a Sunday newspaper. The 50 signatories represented many of the country's top universities, some of which may follow UCL's lead, if they don't like what Lord Dearing has to say.

Nearly a quarter of the world's population speaks some English. That includes around 400m who speak it as their mother tongue and about the same number who speak it fluently as their second language. English is the global language of academic research, and perhaps 1,500 master's degrees are taught in English in countries where the language has no official status. It provides the vocabulary for some specialised fields, such as air-traffic control. And it is the working language of a growing number of international companies—a big reason why so many of them choose London for their headquarters.

Enthusiasm for English is spreading—even in lingually correct Brussels (see article). In China 180m students are learning English in the formal education system, and more than a fifth of Japanese five-year-olds now attend classes in English conversation. Countries as diverse as Chile and Mongolia have declared their intention to become bilingual in English over the next decade or two. And this year English was added to the curriculum studied by Mexican primary-school children, who are learning the language along with 200,000 teachers. According to David Graddol of the British Council, a cultural organisation, “within a decade nearly a third of the world's population will all be trying to learn English at the same time.”

At first sight this means that things are about to get even cushier for native English speakers; they needn't lift a finger to learn other people's subjunctives. But there are two catches. The first is that they will lose the competitive advantage that once came with being among the relatively few to speak the world's most useful language. Competent bilinguals, many of whom have travelled in the course of acquiring English, can offer everything that English monoglots can—as well as an extra language and an international perspective.

More subtly, as native Anglophones are increasingly outnumbered by people who speak English as a second language, the future of their own language is passing from their hands. Jean-Paul Nerrière, a Frenchman who retired as vice-president of IBM, has written two books about a version of English he calls “Globish”. With a vocabulary of just 1,500 words and no idioms, abbreviations or humour, it focuses on the essentials and leaves out everything that makes cross-cultural communication difficult. He developed this “decaffeinated English” after noticing how much easier the Japanese and South Korean employees at IBM found it to communicate with him and his compatriots than with their British and American colleagues.

Even Britons, however, are willing to learn a language if they can see the benefit of doing so. Nick Byrne, who runs the language centre at the London School of Economics, surveyed university language-centres around Britain. He discovered that tens of thousands of students are studying a language in their own time, or as a small part of their degree. Many are hoping to spend a year studying abroad, and recognise that a language—and a life-changing experience—will get them better jobs.

Anglophones often complain that they would study a foreign language, if only they, like the rest of the world, knew which to choose. But the freedom to choose a second tongue is really more a boon than a curse. Entrepreneurial English-speakers could go for another fast-growing language such as Spanish, Mandarin or Arabic, allowing them to get the leap on their polyglot rivals in these important tongues. Or, in this country of first- and second-generation immigrants, owners of foreign holiday homes and workers dreaming of retiring to the sun, they could pick something more idiosyncratic and follow their hearts.

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Emigration

Over there

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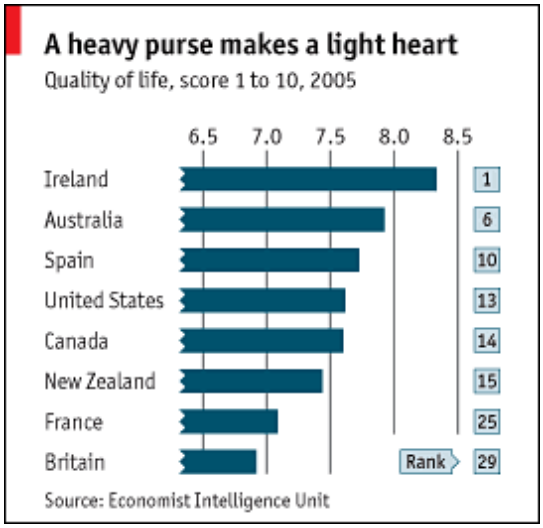
Why Britons are moving out



WHEN the British discuss migration, they usually mean foreigners coming to take their jobs and council flats. Much less notice is taken of the increasing stream of people heading the other way. That is partly because no one really knows how many Britons live abroad. No proper data on the subject have been gathered since the 19th century.

On December 11th the Institute for Public Policy Research (IPPR), a think-tank, published a report that tried to fill the statistical hole. Almost 200,000 Britons left the country last year with no plans to return, and 5.5m now make their home abroad, it said. Surprisingly, 58m people outside the country claim British ancestry—and that, reckons the IPPR, makes the British diaspora the third biggest in the world, behind only India's and China's.

Most of the escapees are not sun-seeking wrinklies; two-thirds of those that go are workers. Six of the top ten destinations are English-speaking and the rest are all in Europe. Australia, Spain and America have attracted the most.

Why do people leave? Better jobs and a better life, say most of those who have already gone, and a quarter of those who are still flirting with the idea cite the high cost of living in Britain. Expensive houses are another reason: they enable home owners to sell up and buy a bigger place abroad, and push the young and houseless to consider a move.

Most émigrés leave because other countries sound better (a nicer climate, a higher quality of life) rather than because they hate Blighty, argues the ever-upbeat IPPR. But otherwise put, they are sick of scrimping in chilly old Britain. And who can blame them: real disposable incomes barely rose between 2003 and 2005, and the quality of life is mediocre (see chart, above).

Although emigration may be getting more popular, it is also—outside the European Union at least—becoming harder. “The technical requirements for getting into many countries are getting tougher,” says Richard Gregan, boss of Overseas Emigration, a firm that helps British folk move overseas. Most countries prefer skilled workers, but it is not always clear which skills will get the nod. Builders, engineers and doctors are all popular, but so are some less obvious trades: “Hairdressers are in high demand in Australia,” says Mr Gregan. “We've had families where the husband is a middle-manager, but the application is fronted by the wife because she took a hairdressing course years ago.”

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Combat jets

Take-off

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A last-gasp deal saves Britain's future jets—and the special ties with America

AP

Off the ground at last

FEW issues illustrate the strength and limits of the Anglo-American "special relationship" better than military co-operation. British forces are fighting shoulder-to-shoulder in Iraq and Afghanistan. But for months the allies have gone toe-to-toe over the development of the Joint Strike Fighter (JSF), a stealthy jet to replace Britain's iconic Harrier "jump-jet".

The JSF, the biggest military programme in history, is being developed jointly by America and eight other countries. Britain, the leading partner, has insisted on retaining "operational sovereignty"—the ability to maintain and upgrade the plane on its own in future. In practical terms this means having access to the secret computer codes required to operate the plane and fire its weapons.

This is something that America has resisted on the grounds that expertise could "leak" to third countries. In today's defence industry the most valuable technology is not the hardware but the software, and the transfer of know-how to partners has had to be approved in a laborious case-by-case process.

After months of intense lobbying, the British government said it finally got what it wanted. Lord (Paul) Drayson, the British defence minister responsible for procurement, signed an agreement with the Pentagon on December 12th to go ahead with the JSF's production phase, saying he had received "the necessary assurances from the US on technology transfer", although he did not spell these out.

The news will come as a relief to all involved. The British government has sunk $2.1 billion (£1.1 billion, at current exchange rates) in the development of the JSF. BAE Systems, Britain's leading defence contractor, is a principal partner in the project led by Lockheed Martin. Britain had planned to buy 150 of the short take-off and vertical-landing version of the JSF, particularly for the two new aircraft carriers that it is developing jointly with France.

Had the JSF deal fallen apart, Britain would have been left facing the prospect of building expensive carriers with no aircraft to go on them. A recent House of Commons report urged the government to find an alternative to JSF if it did not receive proper assurances from America on the strike-fighter technology by the end of December. Lord Drayson claimed he had a "Plan B", but this was a poor option—either converting the new Eurofighter Typhoon being made by Britain, Germany, Italy and Spain for use on carriers or, worse, buying French Rafale jets.

A bust-up would have dealt a serious blow to Anglo-American co-operation on defence equipment. It might also have damaged the Labour government politically if it had been seen to get nothing in return for a foreign policy that is often criticised as subservient to George Bush.

Now that Britain has got its way, more of its weapons are likely to be bought from American firms, and more of its research and development funding will go to joint projects with America. This is no bad thing. Britain is unlikely to be fighting major wars without its longstanding ally, so having jets that talk to each other is useful. And Europe's defence industry is so mired in protectionist politics that big programmes such as the Eurofighter often end up late and over budget.

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British banks

Unwelcome advances

Dec 13th 2006
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Plenty of suitors have appeared, but the banks are staying off the dance floor

IT SEEMS an unlikely bastion of patriotism, but as most bits of British business fall to foreigners, banking remains stubbornly British. Nine of the country's top ten banks are British-owned. The exception, Abbey National, was bought in 2004 by Spain's Banco Santander Central Hispano only after years of mismanagement. But shareholders and foreign suitors are ever-hopeful that British domination of the country's banks will soon come to an end.

On December 8th shares in Barclays surged to record levels after analysts at Morgan Stanley, an investment bank, said they thought Bank of America (BofA) was interested in buying it. Ken Lewis, BofA's chairman and chief executive, later said that he would “have to have a lot of uncertainties cleared up” before making an acquisition in Europe. But British banks appear to be in play.

On December 11th Prudential, a British life insurer, said it had rebuffed a Citigroup bid for its internet-banking business, Egg. And it is not only American banks that are testing the water. In July Crédit Agricole said it had looked at buying Alliance & Leicester, a former building society, and Spain's Banco Bilbao Vizcaya Argentaria (BBVA) is thought to have pondered a bid for Lloyds TSB.

The arguments for buying British banks look compelling. Britain's stable regulatory regime welcomes foreign ownership. For an American buyer, already constrained at home by rules preventing banks from making acquisitions if they have more than a tenth of national deposits, the common language and similar legal systems make Britain a good staging point for expansions into Europe.

Santander's purchase of Britain's Abbey National also changed the landscape. Before that acquisition most banks had tended to focus on mergers in the same markets, where costs could be cut through closing branches. Santander, however, promised to trim almost a fifth of Abbey's costs by closing down its computer systems and moving customers onto its own network.

A gateway to Asia

Buying British also gives a foreigner a door into other markets. Standard Chartered, for instance, makes most of its money in Asia. Even Barclays, as British a name as any, now gets about half its income from overseas. And the new Basel rules will soon reward banks for geographical diversity by letting them hold less capital.

But there are also real stumbling blocks. Only optimists believe that a big deal now could duplicate Santander's cost savings at Abbey, which was running antiquated computer systems. “It is hard to argue that British banking is in such a sorry state that others can come in and do it better,” says David Williams, of Morgan Stanley.

A second obstacle is that most British banks are so hefty that few firms in the world are big enough to buy them, says Alex Potter, an analyst at Collins Stewart, a stockbroker. HSBC and Royal Bank of Scotland have market values of $207 billion and $123 billion respectively, which puts them out of reach for all but the largest (or most determined) suitors. Barclays, with a market value of about $92 billion, is close to half as big as BofA, at $240 billion.

But the biggest impediment is the fact that they are all doing fairly well, so no British bank is looking for a buyer. In most industries, that does not matter, but banking is dependent on the knowledge and good will of key staff. Buyers have so far proved unwilling to make hostile offers, especially when crossing borders.

Short of Britain's credit or housing bubbles bursting and causing a slump in earnings, that is not about to change soon.

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About sponsorship

Ipswich murders

Somebody's child

Dec 13th 2006
From The Economist print edition

Why prostitutes are so vulnerable to male violence

BY DECEMBER 12th the dead bodies of five young women, all prostitutes, had been found near Ipswich, a town in East Anglia. All were thought to have worked in its red light district. The chief constable of Suffolk, Alastair McWhirter, describes the discovery of five bodies in ten days as “unprecedented” and the situation as “difficult and unusual”—although he says it is too early to use the term “serial killer”.

The murder investigation—which now involves 100 officers—is fraught with difficulties. Most prostitutes have an uneasy relationship with the police and are unwilling to give evidence or report violent clients (some of whom then go on to murder). The killer is anyway unlikely to be well known to the victim, so evidence linking the two may be scarce.

AFP

Change her odds

Prostitutes, who tend to lead their customers to concealed places, are easy targets for violent men with a grudge against women. But they also complain that policemen treat violence against them as an occupational hazard rather than a crime. At least 60 sex workers have been murdered in Britain in the past ten years. One-third of the cases remain unsolved—a far higher proportion than for other murders.

Cari Mitchell, a spokeswoman for the English Collective of Prostitutes (ECP), believes that police acted “extremely slowly” in the Ipswich cases. One of the young women, Tania Nicol, was missing for six weeks before her body was found, though she had been reported missing.

So how to prevent more prostitutes being attacked and murdered? The Home Office has expanded to the whole country a scheme running in Liverpool that encourages women to share information about violent customers and to report their attackers. But some, including the London Assembly, believe that more should be done to help prostitutes.

The ECP argues that the government's strategy on prostitution, which has reduced activity in residential streets blighted by kerb-crawling, has made women more vulnerable. A recent report for the Home Office admitted that the use of anti-social behaviour orders (ASBOs) against prostitutes had moved many into deserted areas, as is the case in Ipswich.

But the strategy does point the way forward in three important respects. First, it emphasises the need to deter young girls from entering prostitution—three-quarters start working before they are 21. Second, it acknowledges the need for better “exit strategies”, including housing, jobs and drug treatment (many sex workers are addicted to cocaine or heroin). Third, police are expected to take assaults on prostitutes more seriously.

These young, poorly qualified, drug-using women needed help. They had families who are mourning them today. The killer may never be found. But more could be done to protect those in danger, as well as to prevent new girls from starting out.

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Health-service finances

Plugging the hole

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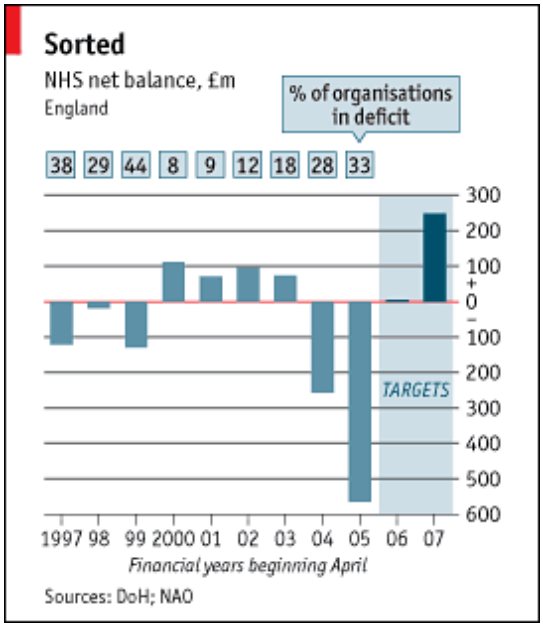
Getting rid of the deficits will be politically tricky



AMID plenty, the National Health Service has contrived to get its finances into a remarkable mess. Despite years of record funding increases from a bountiful Labour government, the NHS in England amassed a net deficit of £570m in 2005-06. The embarrassment has been acute, the political pressure to staunch the financial bleeding intense.

Patricia Hewitt, the health secretary, has already come close to putting her job on the line if the NHS does not return to financial balance in 2006-07. This week David Nicholson, the health service's new chief executive, said that the NHS would achieve a surplus of at least £250m in the following financial year.

That may seem an undemanding objective set against a budget that will increase by 9% to £92 billion in 2007-08. But the net deficit in 2005-06 hid a much bigger gross shortfall of £1.3 billion among a third of the 600 NHS organisations in 2005-06, which was partially offset by surpluses in the rest of the health service. That gross deficit is expected to decline to only around £1.2 billion in 2006-07.

Most of this year's improvement in the net balance is thus coming from higher surpluses rather than smaller shortfalls. That in turn owes much to savings across the NHS, such as big cuts in spending on education and training, which MPs on the House of Commons health committee condemned as “unacceptable” on December 13th. The government is cagey about next year's gross deficit, saying only that there will be “a significant reduction”.

Just why so many NHS trusts lurched into deficit when they were being showered with money remains a matter of controversy. A big overrun on pay is clearly part of the reason. Pay rises absorbed 47% of the increase in the NHS budget in 2005-06. The government badly miscalculated the cost of new staff contracts, which exceeded estimates by £560m.

Local managerial failings also played a role. A welcome move towards greater financial transparency brought these more into the open. In recent years the NHS has sought to abolish the old tricks that were used to hide deficits, such as letting a trust meet a revenue shortfall through a transfer from its capital account.

One accounting reform has been less helpful, however. Under a government-wide change applied to the NHS from 2001-02, any hospital trust that chalks up a deficit gets that money taken away from the following year's budget. This is a double blow to its finances, since it must generate the surplus to repay the deficit with less revenue. If it succeeds, then the withheld revenue will subsequently be returned; but if it fails, then the deficits can get worse and worse. Mr Nicholson said on December 11th that this rule would probably be dropped next spring provided that the NHS gets back into net balance.

That will help the trusts with the worst deficits, such as the Queen Elizabeth in south-east London. More generally, the NHS will benefit from greater stability in pay rates and a clampdown on hiring, which had run ahead of plans. But some trusts will still be left in financial difficulty next year, according to the health committee's report.

One possible cure is for them to merge with stronger organisations. The Heart of England foundation trust (a more independent kind of NHS hospital), based in Birmingham, got ministerial approval on December 12th to consult the public on its plan to take over the neighbouring, financially troubled Good Hope hospital. Bill Moyes, executive chairman of Monitor, which regulates foundation trusts, says this is the first takeover within the NHS on commercial terms. It may point the way for other strong trusts to pull up standards in failing hospitals.

In some bits of southern England, such as Surrey and Sussex and parts of London, more fundamental change is needed in order to reduce excess capacity. Sometimes this will involve a closure as a number of activities are concentrated on one site. More often it will require scaling down activities in some of the hospitals, such as the closing of maternity wards and accident-and-emergency units.

The government is trying to argue the case for these “reconfigurations”, which could affect as many as 60 hospitals, on grounds of patient safety. Roger Boyle, the national director for heart disease and stroke, recently argued, for example, that stricken victims would be more likely to survive in specialist centres than in a local emergency department, even if it involved a longer journey.

The plans to restructure hospital services, which have sparked many local protests—supported in a campaign by the Conservatives—are still likely to be seen largely as a response to the deficits, however. At present, the government is saying that it will tough out the opposition. But it will be no great surprise if it beats at least a partial retreat and limits the reconfiguration proposals to a politically more digestible number.

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Poles in the Highlands

Glen Warsaw

Dec 13th 2006
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Eastern Europeans are saving Scotland's economy

MARZENA ZUCHOWSKA, a 26-year-old Pole, arrived in Inverness, the capital of the Scottish Highlands, in June. Within a week, she was packing fish at Strathaird Salmon, and feeling quite at home. “Scotland reminds me of Poland: the lakes and the mountains and the pine trees and the cold,” she says.

She might also have added "the Poles", for they have flocked to the Highlands since May 2004 to do the low-paid jobs Scots have turned their noses up at for years, in tourism, construction and food-processing. At Strathaird Salmon alone, more than one-third of the 400-strong workforce is Polish. A Polish presence can now be felt throughout the Highlands, from the copies of *Polska Express* in the Inverness municipal library to courteous Polish waiters in far-flung rural hotels.

As elsewhere in Britain, the only big European country so far to welcome workers from the EU's eight new members, no one knows how many eastern Europeans there are here. Highland Council puts the figure at around 3,000—70% of them Polish—but Robert Wright of the University of Strathclyde suspects the real number may be twice that. Either way, in a sparsely populated region that has been haemorrhaging young Scots since the 19th century, the eastern Europeans are welcome.

“Businesses would have collapsed without the Poles,” says Mark Sutherland-Fisher, who runs Czech Match, an employment agency for eastern Europeans based in Tain, near Oban. “Employers are doing everything they can to welcome them: producing vocabulary leaflets, learning Polish themselves, even offering accommodation.” Bill Macdonald, the human-resources director at Strathaird Salmon, visits Poland regularly to scour job centres; when his new employees start work, they are given English classes at the factory.

Some Poles land with a bump, however. Zosia Wierbowicz-Fraser, a second-generation Pole married to a Scot, is concerned by the number of migrants who have been poleaxed by the cost of living. Earlier this year she set up the Inverness Polish Association, which runs an emergency-advice helpline. So far she has received more than 1,000 calls.

Another problem is the shortage of priests. “There are Polish Catholics everywhere,” says Father Paul Bonnuci, the parish priest of Shetland; his own rugged island, he adds, is home to “a huge number”. Earlier this year the bishop of Aberdeen, whose diocese covers the Highlands and islands, toured Poland to recruit more priests. He rounded up “at least five”.

But after the gleeful welcome given to the hard-working, God-fearing new Highlanders, how long will they stay? Employers fear that when more old EU members open their labour markets to workers from the new member states the well of cheap, cheerful workers for Britain will dry up.

Mr Wright believes that as Poland's economy grows, Poles who have built up some capital in Britain will be lured home. Others, with improved English, will head south for better-paid jobs. “It's a one-off bulge,” he says. “In ten or 15 years it will be as if nothing had changed in the Highlands.” But others see signs of settling. “I've met many who are having babies here, looking to register as British citizens,” says Mrs Wierbowicz-Fraser.

In the 16th century, when tens of thousands of hungry Scots migrated to Poland looking for work, the names of some became polonised. Macleod became Machlejd; Chalmers, Czarmas; and Ramsay, Ramzy. If the new Highlanders stick around for long enough, perhaps the names will revert back.

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Bagehot

Treacherous territory

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The Tories are looking for ways to get more of us to marry. Good luck

POLITICIANS, who tend to be well-meaning but bossy types, find it hard to resist intruding into the private lives of their fellow-citizens, especially when some of those private lives are conducted in a way that troubles respectable society. They meddle at their peril, however.

On December 13th John Hutton, the secretary for work and pensions, provided details of the organisation that will replace the failed Child Support Agency. The new body will be called the Child Maintenance and Enforcement Commission and will concentrate on getting money from the most delinquent fathers, encouraging the decent majority to make their own private arrangements. Mr Hutton, who has four children and was divorced three years ago, is threatening to “name and shame” miscreants on a website set up for the purpose. It will be interesting to see whether it works.

That the CSA has been a disaster is not in question. Set up in 1993 with the enthusiastic backing of all parties, who saw it as a way both to save the Treasury money and to force “deadbeat dads” to meet their responsibilities, the CSA has failed to collect more than £3.5 billion ($6.8 billion) of outstanding payments. Established to police every child-maintenance agreement in the country, it concentrated on the mostly law-abiding middle classes, who would have paid up anyway, rather than the hard cases, who still didn't. Its clod-hopping approach and serial inefficiencies earned it the hatred and contempt of nearly everyone who had dealings with it, including its own staff.

If there is a lesson to be learnt from the CSA fiasco it is that naive attempts by government to get people with chaotic and unstructured lives to behave in the way the rest of us would like them to have little chance of success. It is into this treacherous territory that Iain Duncan Smith is hoping to propel the Conservative Party. Mr Duncan Smith, who was deposed three years ago after a brief interlude as Tory leader, is chairman of the party's Social Justice Policy Group, which published a weighty report this week entitled “Breakdown Britain”.

During his time as leader, Mr Duncan Smith, to his credit, began to develop what has become a consuming interest in poverty and social exclusion. With time on his hands, Mr Duncan Smith established a think-tank called the Centre for Social Justice. Once a deeply conventional right-winger, he has taken on

the unlikely role as the social conscience of his party. It was therefore not entirely surprising when David Cameron, desperate for the Tories to shed their lethal reputation for selfishness, chose the once-derided Mr Duncan Smith to be the standard bearer for compassionate conservatism.

Although short on striking new insights and too dismissive of the part Labour's tax credits have played in reducing poverty, there is much in Mr Duncan Smith's report to commend, not least its existence. Its analysis of the role of debt—particularly the high interest rates paid by the poor—in driving families to breakdown is thoughtful. There is a serious attempt to grapple with drug and alcohol addiction. And it is right to argue that voluntary organisations could and should do more when the state is either too distrusted or too clumsy to be of much help.

Unfortunately, this is not what has attracted most attention. Nearly all the headlines have been generated by Mr Duncan Smith's assertion that many of the social ills he describes would be avoided if only more people could be persuaded to get married. Echoing a passage in a speech made by Mr Cameron in October, Mr Duncan Smith observes: “If marriage rates went up, if divorce rates came down, if more couples stayed together for longer, would our society be better off? My answer is yes.”

The figures Mr Duncan Smith quotes appear to make an irrefutable case for pro-marriage policies. Social problems caused by family breakdowns, usually the result of what the report yuckily calls “dadlessness”, cost the country £20 billion a year. Nearly one in two cohabiting couples split up before their child's fifth birthday compared with one in twelve married couples. Children who are not brought up in two-parent families are 70% more likely to become drug addicts. Up to 70% of young offenders are from single-parent families. But who these days disputes the notion that children brought up in loving, two-parent families have an advantage?

Where Mr Duncan Smith goes wrong is in muddying cause and effect. There is very little evidence that it is marriage itself that keeps couples together, but plenty that those who get married are different—socially, economically and emotionally—from those who merely live together.

The difficulty of people

Nor is trying to push the people Mr Duncan Smith and Mr Cameron worry about into marriage obviously such a good idea. Women who find themselves in relationships with feckless, commitment-phobic, low-earning men may be making an entirely rational choice in not marrying them. In an ideal world perhaps they shouldn't have children by them. But should they and their offspring be punished for it?

Transferable tax allowances between married couples—a policy favoured by Mr Cameron—would in practice be an expensive handout to the already wedded that would do almost nothing to sustain marriages under pressure. The financial penalties attaching to divorce, particularly for the home-owning middle classes, far outweigh any incentives to stay together that a future Tory government might devise. Yet people readily pay up to escape a partner they can no longer bear living with.

Mr Duncan Smith's ideas have an appealing simplicity, especially for traditionalist Tories who are dismayed by some of the things Mr Cameron says. But real life is messy and real people are complicated. The Tories should tread very warily indeed.

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Marine conservation

The conundrums of the deep dark sea

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AP

The ocean contains even stranger and more resilient creatures than anyone imagined—but humans cannot agree on how to conserve them

FRIGID, lightless waters, many fathoms below the ice of Antarctica and far from any open sea, might not sound like an ideal home—but there are scores of species, including jellyfish and crustaceans, who find that it suits them perfectly well. Where and how this newly discovered aquatic community gets enough food to sustain itself in such a dark, icy world remains a mystery.

For militants in the cause of marine ecology, the latest revelations by the Census of Marine Life—a private initiative to probe the oceans of the world, at a cost of up to $1 billion—provide one more argument for reeling in the world's fishing fleets, and for denouncing governments that obstruct conservation agreements.

Viewed one way, the census report might perhaps be read as evidence that life-forms are even more robust, and capable of adapting to extraordinary variations in the environment, than people suspected. For example, deep in the equatorial Atlantic the survey found fluids spewing from the Earth's interior at a temperature high enough to melt lead—and shrimps, mussels and clams which somehow took the heat. Other finds included furry crustaceans (pictured above) and lobsters as long as a man's arm.

That is no argument for human carelessness, environmentalists insist: species can adapt to almost anything over millions of years, but man's activities, such as scraping the ocean floor with nets, cause unbearably abrupt changes to ecosystems which are as delicate, complex and fragile as any Brazilian forest.

Not everybody, it seems, has been convinced. Shortly before the census—an effort that involves 2,000 scientists from 70 nations and will conclude in 2010—unveiled its new findings on December 10th, the United Nations concluded some bad-tempered negotiations on fishing with a resolution that fell far short of conservationists' highest hopes.

America, Britain, Brazil, Australia and New Zealand were among those who wanted a moratorium on the practice of “bottom-trawling” in international waters. They were opposed by Japan, Spain, Portugal, Russia and Iceland—all hosts to large, ocean-going trawling fleets—as well as Canada, even though its trawlers do not go to the high seas. Environmentalists gave Canada, Japan and South Korea credit for trying to find common ground—while Iceland (already taking flak for its recent decision to resume

whaling) was the most vocal opponent of a moratorium, perhaps with discreet encouragement from the Russians and Iberians.

What the negotiators agreed instead was that individual countries and regional bodies would behave more responsibly; it was up to them to identify “vulnerable marine ecosystems” in their neighbourhood and prevent ships under their control from bottom-fishing in those places. Without saying how the accord would be policed, it was agreed that governments should be responsible for vessels flying their flag whether they were on the high seas or in national waters.

Industry groups heaved a sigh of relief. “Blunt instruments such as across-the-board bans don't work,” insists Patrick McGuinness, a Canadian who heads the International Coalition of Fisheries Associations. A blanket moratorium, he argues, would have had the “perverse result” of giving a competitive advantage to vessels flying flags of convenience that ignore all regulations. But even in Canada some old salts loathe bottom trawling—like Wayne Eddy, a 62-year-old independent fisherman from Nova Scotia. “It tears the bottom right to pieces, it's bulldozing the ocean,” he growls.

For all the controversy they cause, the number of vessels engaged in bottom-fishing is quite small—perhaps no more than 200, accounting (according to a UN study in 2001) for 0.25% at most of the global fish catch and 0.5% of its value. But the harm they do as a destroyer of habitat, by ripping up corals and sponges, and wrecking the nurseries of fish species that grow very slowly, seems out of proportion to any gain from scraping the ocean floor: one zoologist has compared it to cutting down virgin forests, full of rare species, to collect squirrels. Among the species threatened by bottom fishing is the orange roughy, which lives for more than a century and takes decades to reach sexual maturity: in those gloomy depths, creatures aren't used to sudden events.

Bottom trawling certainly doesn't sound nice. A large, industrial vessel sends down a massive, cone-shaped net, held to the ocean floor by doors weighing up to six tonnes. Water pressure keeps the device open, and steel rollers help it to bounce over tricky rocks and avoid getting snagged. Central to the case against bottom-fishing is the protection of underwater mountains, known as seamounts, which are especially rich in marine life of all kinds. There are tens of thousands of them, but their location is mostly unknown: that alone creates an argument for caution, say supporters of a moratorium. The process of fencing off seamounts is still at an early stage, though four clusters of them have been discovered and declared off-limits in the north-eastern Atlantic. A moratorium would at least buy time to look a bit harder for those fragile peaks.

Taking their cue from George Bush, who recently made a bid for green hearts and minds by proclaiming a large marine reserve north of Hawaii, American officials are putting the bravest face on the outcome of the UN talks. Claudia McMurray, an assistant secretary of state, called it a clear statement that “destructive fishing practices should stop”—while Dorothy Zbicz, a diplomat-turned-conservation-pundit, hailed the resolution as a “milestone” whose moral effect would be stronger than its non-binding language suggests. Most states would not have agreed to the regime of self-policing unless they planned to comply, she believes. And public concern over the world's oceans will put governments under moral pressure.

The strength of that pressure may depend in part on the psychological impact of fresh discoveries about the diversity of ocean life. Ron O'Dor, a Canadian scientist who has played a big role in the marine census, insists that new finds will increase the case for conservation. “If the bottom of the sea was a desert, then trawling wouldn't be a problem,” he says. “But everywhere we go, we see luxuriant life.”

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Bug-bombs and bacteria

Can the line against bio-terror hold?

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Efforts to avert germ warfare succumb to low expectations

IMAGINE if the tiny amount of radioactive polonium-210 that killed a former Russian agent, Alexander Litvinenko, in London last month—contaminating his family and more than a dozen other people from London's Mayfair district to Hamburg and Moscow—had instead been minute droplets of highly contagious smallpox virus, genetically engineered to neutralise vaccines. Does that sound too hard a trick for a would-be suicidal terrorist to pull off? In early 2001 a team of Australian-based scientists attempting to find a contraceptive vaccine for mice slipped a gene into the mousepox virus that inadvertently turned the normally mild strain deadly. It's a frightening thought that nobody can be sure where the published details of those boffins' work are being studied.

Experimentation in the life sciences is accelerating fast, with potentially huge benefits in the treatment of genetic disorders and disease. But efforts to ensure that what government or company-owned laboratories discover is not abused for weapons-making, in a discipline where virtually every technique can be used for good or ill, merely inch along. Some 100 of the 155 signatories of the Biological and Toxin Weapons Convention (BWC, for short) have just spent three weeks in a five-yearly huddle to review the rules. They emerged on December 8th, celebrating two great achievements: not to have shouted at each other (their 2001 review had to be postponed for a year to let tempers cool), and the setting up of a three-man clearing-house for information.

That the bar for measuring progress in bolstering the BWC should have dropped so low is both a puzzle and a worry. For more than 30 years most governments have shied away from bug weapons, since neither viruses nor bacteria can be made to respect either battle lines or borders. Their use was banned as long ago as 1925; development, production and stockpiling was outlawed under the BWC in 1972.

The convention was the world's first global disarmament agreement. Yet a recent survey by Amy Smithson of the Centre for Strategic and International Studies, a think-tank in Washington, DC, found that over 80% of past and present senior American officials, congressmen and non-government experts interviewed thought a biological attack in the next five to ten years to be likely, very likely or else a dead cert. Al-Qaeda, after all, is known to have conducted rudimentary experiments with anthrax and ricin; other groups have shown interest in these blackest of arts.

Strictly speaking, the BWC is not about dealing with biological terrorism. But like resolution 1540, passed by the UN Security Council at America's urging two years ago, it requires governments to pass laws to prevent materials and know-how from falling into the wrong hands. Lots of governments have yet to do so.

The Bush administration also gets flak for the convention's difficulties. That is because it scuppered plans to add an inspection protocol (the proximate cause of the near punch-up in 2001). In fact, the proposed inspections were too feeble to have picked out the cheats from the rest; others opposed the plan too.

A report by Ms Smithson two years ago, involving experts from the biotech and pharmaceutical industries, suggested that more rigorous and reliable inspections could be done, without compromising commercial secrets (another big worry). Unmoved, American officials continue to block all discussion of inspections. Much to the regret of Britain and others, they also refused these past three weeks to talk about efforts to strengthen the existing powers of the UN secretary-general to investigate allegations of biological abuse. Meanwhile, America continues to name and shame: this time accusing Iran, North Korea and Syria of building bug bombs (others harbour similar suspicions).

There are other ways of violating the BWC. Governments are supposed to say each year what they are

up to in the biological field, as a confidence-building measure; 40% of members have never submitted the required report; others do so sporadically. Soon they will be able to file the information electronically, though there are no plans to make such declarations public, and thus subject them to wider scrutiny.

Meanwhile, before the next review in 2011, annual meetings of experts will actually spend less time (one week, instead of two until now) discussing ways to improve lab safety and the security measures needed to govern dangerous pathogens, and on developing codes of conduct for those working in the biotech industry. Work in all these areas over the past three years has proved more useful than expected, says Patricia Lewis, director of UNIDIR, the UN's disarmament research institute in Geneva. But there is no action plan to raise standards more systematically.

If there were, says Ms Smithson, more effort and urgency might go into biosafety and biosecurity. These are not due to be discussed again until 2008. Many developing countries either haven't the resources or, when help is offered, the will to adopt proper standards, seeing them as an excuse for slowing down scientific exchange. That is a mistake. The BWC allows for technical assistance, but investments to make medicines and vaccines will come from companies not governments. Reputable ones will not put their work at risk in places without proper regulations. Doing the right thing can strengthen the BWC, and make commercial sense too.

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Health and the haj

Life, death and pilgrimage

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Pious travel is always a brush with mortality—but some risks can be reduced

AFP

Arafat: the joys and risks of proximity

NEARLY seven years ago, a middle-aged lady called Rashida travelled from her home in England to Saudi Arabia on the *haj*, the journey to Islam's holiest places which every Muslim is urged to make at least once. As her six children recall, she returned in a state of “radiance and exhilaration”, thrilled to have accomplished the pilgrimage for three years in a row. But within a few days, she fell ill and died of a virulent type of meningitis known as W135; she had been vaccinated for two other strains, but not that one. As custom dictates, she was buried in the *ihram* or simple white tunic that she, like any other pilgrim, had worn in Mecca.

The *haj*, which will bring over 2m people to Mecca towards the end of this month, has always been a somewhat perilous undertaking, and pilgrims—like devout travellers of every faith and era—see facing the dangers of the road as part of their spiritual duty. But the gathering in Mecca presents some unique challenges: although there are Hindu sites which attract even greater numbers, there is no sacred spot which compares to Mecca in drawing together people from so many different places for such a short, intense, intimate time. In ages past, the journey to and from Mecca often took several months; in the era of air travel, the pilgrim can be there and back in eight days.

But there are always some who do not survive the experience. In at least seven of the past 20 years, stampedes have claimed scores of lives. In January this year, there were two tragedies in succession: a multi-storey building collapsed, and a stampede occurred during the ceremonial “stoning of the devil”—always a danger point, especially when pilgrims cross a narrow flyover bridge to reach the ritual. In 1990 nearly 1,500 people were crushed to death in a tunnel.

Doctors, especially Muslim ones with experience of the *haj*, are urging that more precautions be taken to reduce some avoidable health risks—not just to participants in the pilgrimage, but also to people they may infect on their return.

Aziz Sheikh, a professor at Edinburgh University, gives warning in a letter to the *British Medical Journal* that a global flu epidemic could potentially be triggered by people returning from the *haj*—and he urges that flu vaccinations be administered routinely along with those which are already given for meningitis. At the moment, the Saudis recommend flu jabs for “high risk” pilgrims, and the advice is widely ignored.

It has been estimated that one in three pilgrims suffers respiratory symptoms during the pilgrimage, and overcrowding (in tents accommodating up to 100 people) provides ideal conditions for illness to spread. The risk to the families of pilgrims was highlighted by a study in Malaysia, published in 2002: among people sharing a house with a returning pilgrim, about 8% were carrying traces of the bacteria associated with meningitis.

Still, anyone who thinks that Muslims will be discouraged from making the *haj* is underestimating the appeal of a spiritual journey in which people forget their worldly concerns and share the hazards and joys of voyaging and praying with their co-religionists. After a day of supplication amid the numberless worshippers on Mount Arafat, outside Mecca, many recall—odd as this might sound—feeling “alone with God” in a new way.

A different mixture of fear and awe is experienced by anyone who has stood among the suffocating, multilingual crowd that crams into Jerusalem's Holy Sepulchre awaiting the Easter ceremony known as the Holy Fire. In 1834 a stampede at this event claimed hundreds of victims; but hundreds of thousands of Russian peasants continued to converge on the city year after year. Just like Muslim pilgrims to Mecca, they wore white shrouds some of the time—“like the awakened dead”, as an English traveller described them—and garments worn in Jerusalem, or in the Jordan river, were lovingly reserved for later use as burial clothes. Death often came sooner than expected, and in unlikely ways: in 1893, many Russian pilgrims died in a snowstorm north of Jerusalem.

Abdurahman Jafar, a British Muslim lawyer and friend of Rashida's family, says her tragedy will not discourage anyone: in any case, journeys to Mecca always feel like an encounter with ultimate issues of life and death. Even when physical risks are successfully avoided, “the sense of proximity to the divine comes over you like an emotional tsunami.”

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Russian energy

After Sakhalin

Dec 13th 2006 | MOSCOW
From The Economist print edition

What does Shell's capitulation to Gazprom mean for the Russian energy industry?

Get article background

"GIVE me the man," ran an old KGB adage, "and I will find you the crime." A similar rule now seems to apply to energy companies in Russia. For Yukos, once Russia's top oil firm, the crime was allegedly unpaid taxes; with the giant oil and gas project led by Royal Dutch Shell on Sakhalin island, in the Russian far east, it was environmental violations. In both cases the outcome was broadly similar: state-controlled firms ended up taking control of prize assets.

The huge Shell-led project known as Sakhalin II would be unusual anywhere, and in Russia it is unique. It involves the country's first liquefied natural gas (LNG) plant, which will serve lucrative new markets in North America, South Korea and Japan. Sakhalin II is almost finished: it is already producing oil, and LNG shipments are supposed to begin in 2008.

Until this week, though, there were also some perilous peculiarities. Sakhalin II was the only big energy operation in Russia that did not involve a Russian firm: Shell's partners are Mitsui and Mitsubishi of Japan. (Rosneft, a state-controlled oil firm, has a stake in a rival Sakhalin consortium led by Exxon Mobil.) The Shell- and Exxon-led projects were the only two exceptions to the monopoly on gas exports held by Gazprom, the state-controlled gas giant. Along with a Siberian development led by Total, they were also the only projects governed by "production-sharing agreements" (PSAs), contracts signed with the government in the 1990s that some Russians now consider unfairly generous.

The "crime" needed as a pretext to rectify these peculiarities was not hard to find, or invent. The sea around northern Sakhalin, in which the project's offshore drilling rigs stand, freezes for half the year and is home to a rare whale. The twin pipelines that will deliver the oil and gas to the island's southern tip cross around 1,000 rivers and streams, many of which are used by spawning salmon. A few months ago, Russian environmental regulators began to complain and they have since suspended licences and threatened the Sakhalin II consortium with criminal action.

Gazprom was already negotiating for a stake in Sakhalin II when the consortium announced last year that its costs would nearly double, to around $20 billion. Under the terms of the PSA, that will reduce and delay the state's returns. The environmental pressure also raised the prospect of costly delays, to the ire

of the customers who have pre-purchased much of the anticipated gas.

Shell has evidently decided that the threat of delays and obstruction was less palatable than cutting its Sakhalin stake. The cuts in proven reserves that will result are a heavy price for a company that is already short of oil. The deal is still being negotiated, but it emerged this week that Gazprom will probably end up with a controlling stake. In return, instead of a share of a Siberian gas field that was once on the table, Shell and its Japanese partners will get cash (though whether they would want more Russian assets must be open to question). The regulatory shenanigans are likely to continue until the price is agreed.

What will that mean for the salmon, the whales and the rest of Sakhalin's beautiful but fragile flora and fauna? Environmentalists have made common cause with the government, but they may find that, despite its failings, the consortium was greener than Gazprom will be. After all, unlike its new Russian partner, the consortium needed to secure loans from multilateral institutions and was sensitive to bad publicity. It will be interesting to see how the environmental regulators behave once Gazprom is installed. The massive tax debts attributed to Yukos's main production subsidiary were magically reduced by the courts after the unit was expropriated by the state and sold to Rosneft.

Shell's capitulation and the Yukos case exemplify the state's ever-increasing role in the energy industry. A second question is how far that trend will go. State-controlled firms look destined to get preferential treatment in the future allocation of extraction licences, and the role of foreign firms looks certain to be tightly circumscribed from now on. (Just how tightly will be partly decided by a new law.)

But what of Russia's existing private firms? Yukos's remaining assets seem likely to be redistributed in another fake auction. More controversial will be TNK-BP, an Anglo-Russian company that is half-owned by BP (foreign and therefore bad) and half by a clutch of tycoons (unpopular and therefore vulnerable). The firm has been hit with big tax bills and other misfortunes; persistent rumour has it that a change of ownership is likely next year. Russian history suggests that all this is unlikely to boost production.

Still, with the world's energy reserves distributed as they are—mostly in places at least as unstable and inhospitable as Russia—the oil majors will not be easily deterred. The enormous Shtokman gas field in the Barents Sea could be an early test of international sentiment. The Kremlin for years tantalised foreign companies and their governments with the prospect of a role in the Arctic project. Then, in October, Gazprom said it would go it alone.

Now Vladimir Putin says foreign partners might be welcome after all. Whether this confusion stems from extreme negotiating tactics or sheer disorganisation is unclear. Either way, as Sakhalin proves, the Kremlin evidently feels it can afford to dispense with the niceties.

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Carmaking in India

A different route

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While China's carmakers copy, India's are inventing

THE idea is not new. Making low-cost cars played a huge part in Europe's economic surge during the 1960s—and created classic designs such as the Mini to boot. Now a new generation of ultra-low-cost cars could have an equally dramatic impact in Asia. For years, industry experts believed that such vehicles would emerge first in China, which is already the third-largest car market and the source of low-cost-everything-else. Yet the focus has now shifted to India, a country with terrible roads and a tenth of the inward manufacturing investment.

Last week the government of West Bengal approved the construction of a new factory at Singur, near Kolkata (Calcutta). In less than 18 months, if everything runs to plan, the first examples of a new low-cost car will leave the production line. The firm behind the project, Tata Motors—part of the Tata group, which is fighting with CSN of Brazil over Corus, an Anglo-Dutch steelmaker—has been in the car business for less than a decade. But the Tata group is revered in India for its ability to overcome seemingly impossible hurdles and it has formidable financial resources. Expectations are so high that other Indian states are bidding for future factories and international carmakers are lining up to co-operate with the venture.

The first trials of the new car took place last month at a test track in Pune, near Mumbai. It is not a cut-down version of an existing car, but is an entirely new design. With a rear-mounted 30bhp engine, four seats and a choice of four- and five-door models, it is a “good-looking car which is comfortable to drive,” according to Ravi Kant, the boss of Tata Motors. Most ambitious of all is the price. The car is known as the “one lakh” car—one lakh is 100,000 rupees, equivalent to around $2,100 when the car was first conceived four years ago. Material costs have since increased, but Tata still hopes the price will be less than $3,000 before tax.

Such a price is roughly half that of the cheapest car today, the Romanian-built Renault Logan. Is it possible? Tata executives point to the Ace, a small lorry launched last year that costs around 1.1 lakh, or about $2,500, before tax. It is modern-looking if slightly rudimentary, and sales were limited to three states for months. But manufacturing capacity is now being increased more than eight-fold to meet demand. The Ace is not just popular, but profitable too: despite rising raw-materials costs and limited scale, it recouped its development costs within a year.

Tata's biggest local rival, Maruti, doubts that Tata's one-lakh car can possibly meet safety and emissions regulations. And that is indeed why the Ace is not exported to developed countries. Although it emits very little carbon dioxide thanks to its tiny engine, meeting other emissions standards and crash regulations would be much harder and would make the Ace much more expensive. Road deaths and poor air quality are both growing problems in India.

Even so, Tata Motors is pushing ahead with its one-lakh car and other firms may well follow. Bajaj, a company known for its two- and three-wheelers, has considered making a low-cost car based on a motorcycle engine. The Munjal family behind Hero Honda, a local motorcycle-maker, is also exploring the possibility of low-cost cars. And in Pakistan the Transmission Motor Company, based in Karachi, already sells a range of very basic four-wheelers for as little as $2,200, and has started exporting them to countries including Sudan, Qatar and Chile.

The contrast with China's carmakers is striking. Until very recently, many domestic Chinese cars were copies of the models made by big international producers. Some even combined the front end of one brand's design with the back of another, creating something like a pantomime horse. Such knock-offs were cheap to produce, but manufacturers are fast discovering the limits of this approach.

The lack of underlying engineering skills makes it hard to build reliable cars, and problems typically

emerge within a few months. Now that China's carmakers have started to build their own cars from scratch, their difficulties have multiplied. That is why the oft-reported plans of firms such as Chery and Geely to export cars to America and Europe in 2007 have now been postponed for several years.

For the Indians, though, perhaps the biggest concern should be neither foreign competition, nor emissions, nor safety, but congestion. The country's poor-quality road network is slowly improving, but it is heavily over-used. With India's transport arteries already so badly clogged, a boom in sales of low-cost cars could bring about a seizure.

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Anti-corruption measures

Too little, too late?

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From The Economist print edition

Siemens belatedly wakes up to reputation risk

IT IS a dense, dramatic account of police raids, arrests and the investigation into allegations that at least €200m ($265m) was siphoned out of secret bank accounts in Liechtenstein, Austria and Switzerland. A page-turning airport thriller? No, the 20-F filing submitted by Siemens, a German conglomerate, to the Securities and Exchange Commission in Washington, DC on December 11th. At the same time, the firm restated its earnings to take account of uncertainties over transactions being investigated by state prosecutors in at least three countries.

The purpose of these murky dealings remains unclear: was it a case of self-enrichment by crooked employees or something more sinister—carefully laundered bribes to win Siemens business in some of the 190 countries in which it operates? Siemens insists that it was a victim of crime not an accessory to it. It is investigating €420m of suspicious payments to consultants over the past seven years. Meanwhile, six present and former employees, including one former board member arrested on December 12th, are in custody.

In the flow of adverse publicity since police raided 30 of its offices a month ago, Siemens has tried to show that it is taking appropriate action. It announced the formation of a “task force” to clarify and standardise its employees' business practices. It also appointed an ombudsman to encourage internal whistleblowing. But for Transparency International (TI), an anti-corruption campaign group, this was not enough. It had already suspended Siemens's membership of its German chapter in 2004 because of the company's reluctance to be transparent about an unresolved bribery case in Italy. (The case was settled last month without admission of guilt.) Siemens's sluggish reaction to investigations in Liechtenstein triggered a letter last month from TI warning that the firm's membership would be liable for termination after December 15th.

At an emergency board meeting this week Siemens announced new measures to show how determined it is to change its culture. It appointed a law firm to investigate the company's compliance and control systems. And it appointed Michael Hershman, an anti-corruption expert and one of the founders of TI (a nice touch), to review anti-corruption controls and training at Siemens. But will this be enough to save the company's reputation or its planned joint venture, Nokia Siemens Networks, which is due to start business on January 1st? The reputation risk could give Nokia grounds to pull out.

Some of Siemens' problems stem from the 1990s, before Germany and other nations signed the OECD's anti-bribery convention in 1999. Yet the Italian case post-dates the convention and another case in Greece concerns preparations for the 2004 Olympics. Siemens and the Munich prosecutors point to evidence that in the latest shenanigans the suspects “banded together” to defraud the firm. There is only so much one can do, sighs a Siemens spokesman, against “criminal energy”.

But even poor supervision and control, rather than connivance with bribery, are bad enough. It cannot help appearances that Heinrich von Pierer, who was chief executive of Siemens in the 1990s before bribery was outlawed, still heads the supervisory board. He was supposed to steer the company through its transition to OECD anti-bribery rules and compliance with America's Sarbanes-Oxley act, which requires greater disclosure and personal responsibility from executives. Worst of all for Germany's reputation as export champion of the world is the suspicion that it may owe some of its prowess to secret bank accounts and slush funds.

Klaus Kleinfeld, Siemens's chief executive since January 2005, may escape the full wrath of shareholders. But he still has plenty to do to reach self-imposed profit targets for some of the group's worse-performing divisions such as business systems, which is loss-making, and communications, where profits are sliding. The constant bad publicity cannot help.

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Selling the outdoor life

Hunting, shooting and...shopping

Dec 13th 2006 | BUDA, TEXAS
From The Economist print edition

AP

Feast on elk and ostrich when buying a rifle

AT THE Cabela's megastore in central Texas, men in cowboy hats admire the stacks of guns (“Don't see what firearms you're looking for? Please ask for assistance”) and the endless rows of bristling fishing rods. Families gawk at a game enclosure featuring stuffed buffalo, grizzlies, bighorn sheep and other rarely seen emblems of the American frontier. At the shooting gallery upstairs, children bang away with air guns at tin cans and stuffed deer.

The idea of an indoor retail paradise dedicated to the outdoor life sounds paradoxical. But for sportsmen, this is bliss. Men perk up about coming to Austin, the closest big city, because they can shop for everything from camouflage dog-vests to hunting stands to meat grinders. This time of year is especially tempting, with both hunting and Christmas-shopping seasons in full swing. Cabela's has 18 such “destination stores” (with eight more due to open next year), mostly in the Midwest, complete with aquariums, stuffed wildlife of all kinds, archery ranges and canteens featuring ostrich, elk, venison and bison.

The market for sporting goods in America is enormous. The National Shooting Sports Foundation, a firearms association, reckons that America's 40m shooters will spend $4 trillion over their lifetimes on their hobby. And then there are the anglers, birdwatchers and campers to consider, too.

But as ever more fish-and-gun megastores sprawl along America's highways, some wonder about overkill. Cabela's main rival, Bass Pro, has similar gigantic, lodge-style destination stores with aquariums, wildlife mounts and indoor waterfalls. Last month it opened a fourth store in Texas. Both companies began as catalogue businesses before opening their chains of megastores. (Catalogues still account for 60% of business, reckons Mike Callahan of Cabela's, though that percentage is dropping quickly.) Gander Mountain, a third competitor, has over 100 stores. Cabela's and Gander Mountain went public in 2004, and there was speculation about whether Bass Pro would follow suit, but it remains private.

For the moment, business is booming. Mr Callahan says he is heartened by an increase in the sales of hunting and fishing licences, and by women's growing enthusiasm for hunting. With luck, Cabela's plan to open a store near the Meadowlands, close to New York City, will not endanger Central Park's ducks.

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Electricity

Going metric

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Italy's Enel leads the way in the adoption of "smart" electricity meters

FOR most people, electricity meters are mundane devices. But in the eyes of utility bosses, they are bursting with untapped potential. For starters, if their design were just a little cleverer, they could transmit instant readings back to the power company, doing away with expensive visits to each customer. They could allow utilities to charge different rates at different times of day. And some day the niftiest of these "smart meters" could even turn central-heating systems or air conditioners up or down as power prices rise and fall.

Many analysts believe that power prices that vary hour by hour or even minute by minute, abetted by smart meters, are the shape of things to come. There are already several brands of smart meter on the market. Today's pricing system—of flat rates for retail customers despite constant fluctuations in the wholesale market—is rather like setting petrol prices without bothering about the cost of oil, says Fereidoon Sioshansi of Menlo Energy Economics, a consultancy. Customers have no incentive to conserve power when it is scarce during times of peak demand, so generating firms have to build lots of spare capacity to cope with surges in consumption. America's Federal Energy Regulatory Commission (FERC) calculates that utilities could reduce peak demand by as much as 7% through variable-pricing schemes. It cites a study that estimates that such a shift would save $15 billion a year.

The hitch is that utilities in America have provided smart meters for only 6% of their customers, according to the FERC. This is partly because many American utilities have spent a lot of money in recent years installing meters that can transmit readings by radio, but have none of the other bells and whistles of smart meters. They are reluctant to invest in yet more new technology so soon. Moreover, in regulated markets, the bureaucrats in charge are suspicious of utilities' plans to spend big sums on new kit, since they generally have the right to pass on their costs to customers in the form of higher prices.

Regulators tend to push for smart meters only under special circumstances. The government of the Canadian province of Ontario, for example, has decided to phase out coal-fired power generation, and wants smart meters to help cut demand to compensate for the reduction in the power supply. And the California Public Utilities Commission, which is also worried about a shortage of generation capacity, has approved the plans of Pacific Gas and Electric, a local utility, to install 9.3m smart meters. The European Union's energy tsars are keen on smart meters as a way to encourage energy efficiency for its own sake.

But power firms and regulators are looking at smart meters the wrong way, argues Fulvio Conti, the boss of Enel, a utility that has provided them for almost all of its 30m-odd customers in Italy. They are not a means of managing demand so much as a tool to improve customer service. Thanks to smart meters, Enel now claims to respond to 98% of requests or complaints from customers within 24 hours. It can detect and repair outages more quickly, preventing revenue loss. Customers who fail to pay their bills can have the power switched off or their consumption limited, further shielding Enel from losses.

Since all this happens at the touch of a button, the company has had to send employees out on 6m fewer calls this year alone. The firm is cagey about just how much money all this is saving it, since regulations oblige it to return half of that sum to customers through lower prices. But Mr Conti says the meters will pay for themselves within a few years. Enel plans to install them in other countries where it operates, such as Spain and Romania.

And cost-cutting is just the beginning. Enel has begun offering pricing packages with discounts for evening and weekend use, which are proving popular in Italy. This week it announced a scheme to spend €3.3 billion ($4.4 billion) building renewable power plants over the next five years. This investment, in conjunction with smart meters, will allow it to sell "carbon neutral" power to environmentally minded customers. Smart meters, Mr Conti believes, will give Enel an edge "for the next 20 or 30 years".

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Internet advertising

Adland's test tube

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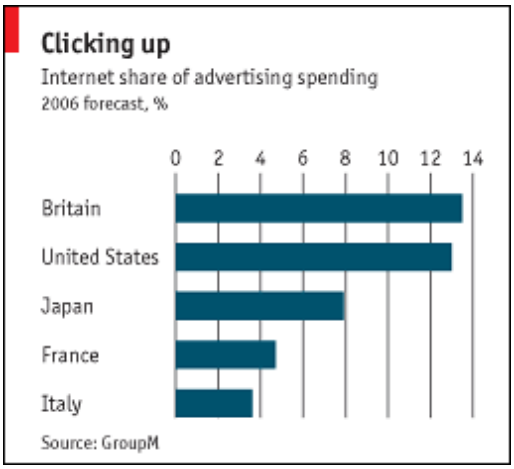
Britain provides a glimpse of the future of advertising

Get article background

THE future, noted William Gibson, a science-fiction writer, is already here—it is just unevenly distributed. To see the future of mobile phones, people look to Japan; to see the impact of broadband internet connections, they look to South Korea. And for a glimpse of the future of advertising, the place to look appears to be Britain. The country is a "test bed" according to Eric Schmidt, chief executive of Google, which has just announced an alliance with British Sky Broadcasting (BSkyB), a British pay-television company. On December 6th the two companies announced that the internet search and advertising giant would provide its search, e-mail, video and advertising services to BSkyB's broadband internet-service customers, with the aim of extending the partnership to BSkyB's main television business.

Why Britain? The country has several factors in its favour. For a start, the British online-advertising market is "exploding", said Mr Schmidt. The internet accounts for 14% of companies' total spending on advertising in Britain, compared with about 5% worldwide (see chart). Expenditure on internet advertising in America is similar to that in Britain, but Britain's growth rates are slightly higher. In the first half of this year online advertising increased by 40% in Britain and 37% in America compared with the same period last year, according to the Internet Advertising Bureau, an industry body. Britain is now the leading market for online advertising, says Rob Noss, European chief executive of MindShare Interaction, a new-media subsidiary of WPP, a British advertising giant.



That is due, in part, to the presence of the BBC, Britain's state-controlled main broadcaster, which has no advertising. As a result, British companies spend less on television advertising than those in countries with big commercial broadcasters, and more on other types—which, in recent years, has meant online advertising. GroupM, the media-buying division of WPP, forecasts a 2.4% decline in British television advertising in 2006 and a flat market for 2007.

Eventually, says Sir Martin Sorrell, chief executive of WPP, the internet will grow to account for 20% of worldwide advertising spending, at the expense of traditional media (broadcast and cable TV, print, radio and outdoor advertising). But Britain will reach this point by 2009, predicts ZenithOptimedia, a market-research firm, at which point internet advertising will be worth almost as much as television advertising. Britain has, in effect, got a head start over other countries as advertising spending shifts from old to new media.

Another catalyst of the growth of online advertising is Britons' enthusiasm for fast, always-on broadband connections to the internet and for online shopping. In Britain 47% of households have broadband, compared with 44% in America and 33% in Germany. Consumers with broadband tend to shop online more frequently and spend more money than those with slower dial-up internet connections. In the first six months of this year online retail-spending in Britain increased by 40% compared with the same period last year. The attraction of online ads is obvious.

Advertisers are waking up to the fact that British consumers typically spend a quarter of their media-consumption time on the internet, says Linus Gregoriadis, an analyst at E-consultancy.com, an internet-research firm. Britons spend an average of 23 hours a week online, compared with 14 hours per week for

Americans. Advertisers also like the efficiency of the medium: much of the advertising on the net is “pay-per-click”, which means that advertisers pay only when consumers click on an ad, so they can be relatively confident that their advertisements are reaching a receptive audience. Mr Noss says that several of his firm's clients already spend 40% of their advertising budgets online.

Blue-chip companies have yet to take the plunge and still spend only a tiny fraction of their budgets on internet advertising, but that could be about to change. Unilever, an Anglo-Dutch consumer-goods giant, Heineken, Europe's largest brewer, and Procter & Gamble, a large consumer-goods company and the biggest advertiser worldwide, recently announced that they will switch a big chunk of their British advertising budgets away from television. Much of it will go online.

Britain is also attractive to advertisers because it is a homogeneous market, so there is no need to tailor advertisements for different parts of the country. The adoption of digital television is proceeding well, and BSkyB's platform is particularly advanced; Google and BSkyB plan to send advertisements to viewers' set-top boxes and then play them in commercial breaks depending on their interests, thus extending its targeted advertising model from the internet into television.

And British consumers' relative enthusiasm for accessing the internet from mobile phones—if not in the same league as that of Asian consumers—explains why Yahoo!, another big internet firm, struck a deal last month with Vodafone, a big mobile operator based in Britain, to test new models for phone-based advertising. In addition, next year a new mobile-phone service for young people, called Blyk, will be launched in Britain before being rolled out across Europe. Users will be able to earn airtime in exchange for receiving advertisements on their handsets.

Blyk's co-founder, Pekka Ala-Pietila, a former president of Nokia, the world's biggest handset-maker, says the firm decided to launch in Britain first because it is the second-largest advertising market in the world after America, with sophisticated advertisers who appreciate the market segmentation that new technology makes possible. As a result, he says, Britain “is where we could learn the most”. It all makes a welcome change for Britons used to hearing that their once-great country no longer leads the world in anything.

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Technology anniversaries

Bits of memory

Dec 13th 2006 | SANTA CLARA, CALIFORNIA
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What the sudden mania for anniversaries says about the computer industry

THE iPod is five years old this autumn. It already has its own biography*, by the journalist Steven Levy, who considers the gizmo an icon of modern times. Its birthday generated glowing tributes in newspapers from India to Egypt to Brunei. And this is just one of the many anniversaries that the computer industry has seen fit to celebrate this year.

Last month the Computer History Museum in Mountain View, California hosted a symposium commemorating the 35th anniversary of Intel's 4004 microprocessor, which revolutionised computing by combining disparate functions into a single chip and was Intel's first step towards becoming the world's biggest chipmaker. Other notable dates this year include the 25th birthday of the IBM personal computer, the 50th anniversary of the first hard-disk drive and the 60th anniversary of the first general-purpose digital electronic computer, the ENIAC (Electronic Numerical Integrator and Computer), which weighed 27 tonnes and contained over 19,000 vacuum tubes. Never before has the computer industry seemed so preoccupied by such historical milestones.

“History”, said Cicero, “illuminates reality, vitalises memory, provides guidance in daily life.” By that measure, there is a lot of illumination and guidance going on in Silicon Valley. Any excuse to celebrate an anniversary is seized upon and milked for all it is worth. Why?

The desire to commemorate past achievements seems especially peculiar in the computer industry, given its obsessive focus on the future, its mania for constant improvement and the speed with which its products become obsolete. But the industry seems to be coming to terms with the fact that it is no longer as young and sprightly as it once was. Many of the pioneers who laid its foundations are now old men.

Celebrating the industry's past highlights the extraordinary impact of their achievements and provides an opportunity for calm reflection in a constantly changing field. It acknowledges and demonstrates that the industry has grown up. And, of course, it is great marketing. Describing the industry's earliest efforts—the first hard-disk drive was the size of a cupboard and stored a mere five megabytes—emphasises the amazing strides it has made since. Hence all the popping of champagne corks in Silicon Valley—a term coined, incidentally, by Don Hoefler, the editor of *Electronic News*, exactly 35 years ago this year.

* The Perfect Thing: How the iPod Shuffles Commerce, Culture, and Coolness. By Steven Levy. Simon & Schuster; 304 pages; $25

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Face value

Rockefeller revolutionary

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Judith Rodin is shaking up one of the world's most venerable charitable foundations

"I AM not a 'steady as it goes' sort of person," says Judith Rodin, with admirable self-awareness. In the 21 months since she became president of the Rockefeller Foundation, Ms Rodin has shaken to its core the charitable foundation established by John D. Rockefeller, an oil tycoon, in 1913. The 58 people who have left the staff, about one-third of those she inherited, are but the most visible evidence of the thorough change in culture over which she is presiding—or, rather, the most audible evidence, judging by the vociferous public complaints of some of the departed.

Ms Rodin is helping to answer one of the questions raised by a new generation of business-minded philanthropists, led by Bill Gates: whether the older philanthropic institutions would respond, and if so, how. Few institutions are less accountable than charitable foundations, which face no meaningful market pressure to keep them on top of their game. Yet who wants to work for, let alone run, an outfit widely seen as out of date and out of touch, not least by the fashionable new entrants to the industry?

Certainly not Ms Rodin, who joined Rockefeller after a successful career at the top of American higher education—one that briefly established her as the world's highest-paid university president. She is determined to make the foundation fit for the 21st century. She now talks of the "new Rockefeller", while deploying the favourite buzzwords of the new philanthropists, stressing the importance of being "strategic", of "leveraging" the relatively small sums of money at its disposal (it makes grants of around $100m a year) through partnerships, and, above all, of achieving "impact".

As reformers often do, she describes her revolution as returning the Rockefeller Foundation to its roots—in this case to the "scientific philanthropy" of its founder, who said that the "best philanthropy is constantly in search of the finalities—a search for a cause, an attempt to cure evils at their source." Among other historic achievements, the foundation played big parts in developing a vaccine against yellow fever and in the "green revolution", which spectacularly increased farming productivity and reduced poverty in many poor countries in the 1960s.

By the early 1970s most of the Rockefeller Foundation's greatest achievements were in the past and a long period of drift had begun. Ms Rodin inherited a foundation that was no longer the best nor the biggest—in its early years it gave more foreign aid than the American government. There was a danger of "becoming marginal in our impact", says Ms Rodin. "Impact needed to be reasserted as a fundamental criterion for everything we do."

This was not easy, partly because the foundation had been divided into several fiefs (health, arts and so on), each defended with the vigorous politicking at which the charitable sector excels. Several of Ms Rodin's predecessors had arrived expecting to reform the foundation, only to leave disillusioned a few years later. For her part, Ms Rodin was confident of her ability to change an ossified organisation and see off vocal critics, thanks not least to her successful ten-year reign as president of the University of Pennsylvania. There she returned the loss-making medical centre to profit and revived the impoverished community on the university's doorstep.

At Rockefeller, she promptly reviewed its programmes and their effect. She consulted experts, including two former treasury secretaries, Robert Rubin and Larry Summers, to identify the big 21st-century trends that the foundation could hope to affect. She also sought advice from groups that are helping the new philanthropists foster a more businesslike approach, including Bridgespan, a management consultancy for non-profit organisations, and the Centre for Effective Philanthropy. The centre's survey of the organisations funded by Rockefeller revealed a high cost structure relative to its peers, cumbersome decision-making and a culture that did not expect high performance or reward it.

Ms Rodin decided that the separate fiefs had to go. Instead, Rockefeller would pursue big strategic projects with specific goals that would bring together people from all the different programme areas as well as outsiders. The change caused alarm and misunderstanding. An article in the *Lancet*, a medical journal, asked if it meant that the Rockefeller Foundation planned to “reduce or even withdraw its long-standing commitment to public health”—prompting a swift denial from Ms Rodin.

Teaching an old dog new tricks

What her new approach means in practice is becoming clearer. Rockefeller has teamed up with the Bill & Melinda Gates Foundation to promote a new green revolution in Africa—the first time two such groups have announced the sort of “strategic partnership” that is increasingly common in the for-profit world. Rockefeller has also bucked up the planning for New Orleans's reconstruction, which had stalled amid political conflict in the hurricane-devastated city. Rockefeller has provided staff to get the politicians talking to each other, sent Ed Koch, a former New York mayor, to advise on building low-cost housing, and provided finance for Spike Lee to make his documentary, “When the Levees Broke”. This could not have happened under the old programmatic approach, says Ms Rodin.

Even more striking for an organisation that has suffered from “not invented here” syndrome, Rockefeller is teaming up with InnoCentive, an online business that posts problems and offers rewards to innovators who solve them. Rockefeller will provide funding to adapt this “open innovation” model to helping the poor. Next are likely to be projects on climate change and on the growing economic insecurity that many people experience. Whether all of this will accomplish as much as Ms Rodin hopes remains to be seen. But in the battle to reinvent the philanthropy business, she is giving the new crowd a run for their money.

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Dubai

All that glisters...

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From The Economist print edition

A lot of cities harbour the desire to become a financial centre. Nowhere, however, has been as bold as Dubai

Caro Fotoagentur GbR

THE sprawling gold souk in the old quarter of Deira is testament to Dubai's history as a staging post along ancient Middle Eastern trade routes. But today the stalls selling glittering bangles attract more tourists than traders. The serious money is pouring into the other, newer Dubai emerging from a forest of construction cranes in the desert a few miles to the south. There, amid some of the world's most luxurious hotels, apartments and shopping malls, the emirate's most audacious gamble is taking shape.

The Dubai International Financial Centre is a small city-within-a-city, clustered around a striking building known as “the Gate”. It is an attempt by the ruling al-Maktoum family and a close-knit web of their business partners to build a global centre for financial services. “Our goal is to put Dubai's clock up on the walls of the world's financial institutions, in a slot between Hong Kong, Singapore and London,” says Nasser Alshaali, a senior official with the centre's new financial exchange.

As capital is becoming more mobile, an unprecedented opportunity exists for cities to join the competition for international financial business. São Paulo, Shanghai, Kuala Lumpur, Johannesburg and Istanbul are all aspiring to become regional financial centres. To succeed, they must meet the needs of international bankers and financiers: transport links, sound regulatory and legal systems, technological sophistication, a good quality of life for expatriate bankers and liquid capital markets (often sustained by an emerging middle class).

Hong Kong and Singapore can already tick all of these boxes. Dubai means to do the same. But the emirate is in a hurry. Instead of building itself up bit by bit and slowly gaining the confidence of financiers—as London and New York did over decades—it is trying to buy its place at the table. Fifteen months after it opened and despite billions of dollars of investments, the results have been mixed and there is scepticism at just how successful it can be. But these are early days.

Dubai starts with considerable advantages. It sits in a region awash with money—thanks largely to surging oil revenues. Financiers reckon that up to $2 trillion in investments come from the Gulf region, the bulk of which is parked abroad, often as American treasury bills and in places like Switzerland and London. But increasingly, money is staying closer to home. According to a report by Capgemini and Merrill Lynch, the number of people in the Middle East with more than $1m in financial assets rose by nearly 10%, to 300,000, last year. The number of very rich is expected to jump to 1.8m by 2010. Governments in the region are also spending billions of dollars on infrastructure, and national investment agencies are on the

prowl for things to put their cash into.

No wonder global financial firms are increasing the breadth and depth of their operations in the Middle East. A handful of big banks has been in the region for decades. HSBC, for instance, has operated in Dubai for 60 years. But in the past they were restricted to areas such as commercial banking. As rules have been loosened, more investment banks, insurers, fund managers, private-equity firms and even a few hedge funds have arrived.

Dubai wants them all. It is chasing business not only from the Middle East, but also from countries farther east, such as India. The financial centre is trying to attract corporate and investment banking, private banking, capital markets, asset management, fund administration, reinsurance, Islamic finance and back-office operations. Accordingly, the Dubai financial centre has been granted its own commercial laws, regulators and courts. It is an oasis within the more traditional bureaucratic and legal systems in force elsewhere in Dubai—not to mention the region as a whole.

The rulers' backing

The city is also setting up new markets. Although the Dubai International Financial Exchange is only 15 months old, Dubai will soon open a commodities exchange as well. This will work in partnership with the New York Mercantile Exchange, offering as its main product a new oil-futures contact based on Omani crude, which officials hope will become a new world benchmark. In a sign of Dubai's growing influence, the government of neighbouring Oman recently took a 30% stake in the commodities exchange.

Behind much of this lies a second advantage: the firm hand and deep pockets of Dubai's ruling family. Companies are lured to Dubai by incentives that, so far, are unmatched in the region. “They have taken some of the best from Bermuda and Switzerland and are combining those concepts,” says Michael Klein, a senior executive with Citigroup. The deals on offer include zero tax on income and profits, 100% foreign ownership, no restrictions on foreign exchange or repatriation of profits, and relatively transparent light-touch regulation (with laws borrowed heavily from Britain and Australia). Even the regulators have been imported.

Thanks to these incentives, coupled with tireless marketing and Dubai's reputation as a relatively comfortable place to live and work, a trickle of interest has turned into a small stampede. The centre aims to become home to 250 international financial firms by 2009; so far, several dozen have set up shop. Two giants, Deutsche Bank and Credit Suisse, arrived early. Since then a gaggle of well-known firms, such as Goldman Sachs and Lehman Brothers, have moved in or plan to do so.

Morgan Stanley, which opened an office last spring, is the sort of firm that local officials love. “Dubai has done it right,” says George Makhoul, a Lebanese-born manager who runs the investment bank's operations in the Middle East and North Africa. “They built it and then said come get it.” The firm more than doubled its regional revenues in its first six months, he says. Although its usual practice is to enter a new market one step at a time, starting with investment banking, Morgan Stanley offered its full array of wholesale financial services in Dubai from the outset. “You can't get in just by getting your toes wet,” adds Mr Makhoul. Given the demand, “our strategy was probably justified in the first week.”

Dubai's third advantage is a history of pulling off grand schemes. Blessed with fewer oil or gas deposits than its neighbours, the emirate has long sought other ways to make a living and has thrived as a trading entrepot living off its wits. “When I look at Dubai, I think of Amsterdam in the 16th century,” says Saskia Sassen, a sociologist at the University of Chicago, who studies global cities. “Dubai is not a six-month miracle.”

Dubai's big successes include the Jebel Ali container port; a world-class airport; a leading airline in Emirates; duty-free stores that would exhaust the most indefatigable shopper; the world's first seven-star hotel; luxury beach resorts; regional centres for media and health care; as well as more unusual projects, including man-made islands in fantastic shapes. The world's tallest building, the Burj Dubai, is also under construction. All this helps to attract celebrities, from Saudi princes to Russian plutocrats and professional footballers, who often buy homes. Although some find it all a bit tacky, Dubai has shown imagination, a knack for getting things done, and an ability to harness capital and use top international talent.

Not everyone is convinced that Dubai's financial designs will be so profitable. “People are committing too many resources to the region,” says a private-equity manager associated with one of the Gulf's big investment firms. “If the whole world is coming to Dubai to do business, they're going to be disappointed,”

adds a banker who sits on the financial exchange's board. “There's not enough business for 30 global financial institutions.”

Even Morgan Stanley's Mr Makhoul admits that, given the wide variety of firms the centre is courting, the time is approaching for Dubai to produce more results. “It seems there's an abundance of initiatives,” he says. “We'd like to see some of these things come to fruition.”

Below expectations

Whereas international banks report an increase in their institutional securities business (mergers and acquisitions, for instance), the volume of trading on the Dubai International Financial Exchange has been disappointing. Until the market becomes bigger and more liquid, successful public offerings will be hard to attract. And financiers complain that Dubai's rulers, despite many hopes, have not yet floated some of its successful state-owned ventures on the exchange. “If the exchange is so great, why is the Dubai government not using it?” asks a former regulator.

An international banker on the exchange's board agrees that the shortage of initial offerings is a problem. He suggests that the big banks will give the market another six to 12 months to get products trading with good liquidity before they reconsider their involvement. “The basic question people are asking is, ‘is this a place to raise money or not, a place to access capital in the region?'” he says. “People need to clearly think this is going in the right direction.”

Predictably, Mr Alshaali, the local official, defends the government. “We don't expect to force a listing of one of its assets,” he says. But he acknowledges that volatile conditions in the region's stockmarkets this year—some indices have plunged by as much as 60%—have made the timing of public listings awkward.

Mr Alshaali points out that both issuers and investors are more careful nowadays. The cautious mood extends throughout the region, where even taxi drivers poured their cash into fledgling stockmarkets only to see their money evaporate. It came as a shock to first-time investors, says Nasser Saidi, a Lebanese-born economist working at the Dubai financial centre: “Everyone thought the only way was up.” Niall Booker, head of HSBC's banking operations in the Middle East, notes that boom-and-bust cycles are typical of emerging markets. Now, he says, valuations have become more realistic.

The test of Dubai's financial sticking power will be its ability to bring together those who offer capital and those who need it. There are growing indications that Middle Eastern companies want to tap public markets to expand abroad, for instance, and Dubai's successful offering of the world's biggest *sukuk*—in effect, an Islamic bond—earlier this year raised hopes.

Much rests on the independence and legitimacy of Dubai's regulators. An early problem was the resignation of some well-known expatriates brought in to oversee the centre and its exchange. They claimed that local officials were improperly meddling, although the locals insist it was all a “cultural misunderstanding”. Indeed, there has been something of a revolving door for foreign executives. The latest arrival is a former head of OMX, the operator of a successful Scandinavian financial exchange, who took over running the financial exchange earlier this year.

One of the biggest difficulties in the Gulf is its notoriously opaque business culture. “We don't want to do business in hotel lobbies,” says Morgan Stanley's Mr Makhoul. “We're trying to bring a global standard to the market, not just do deals.” Yet a recent report from Hawkamah, a corporate-governance institute headed by Mr Saidi, concluded that regional business practices fall well behind Western standards of transparency and accounting. This may not be so surprising considering that about 85% of firms in the region are family-owned.

Putting down cash

If Dubai is to succeed in its ambition, other practices must also change. The emirate has a long-standing reputation for smuggling and money-laundering—the terrorists who struck on September 11th 2001 transferred some of their funds through Dubai. The financial centre has worked hard to show Western governments that it has cracked down, but elsewhere in Dubai it is not uncommon to hear stories about pricey luxury apartments paid for in cash by rich Russians who rarely visit.

Because the financial centre was created from scratch with a commitment to transparency and

international standards, its officials say such worries are unfounded. Yet, in private, Western financial executives operating in Dubai remain on guard about accepting potentially dirty funds. “There is money here from questionable sources, which is very tempting,” says one executive whose firm recently opened in the centre. “We haven't turned down money yet, but I expect it will happen. We have to know our investors.”

The questions of image and security go wider. Expatriate circles gossip about how the ruling family tries to protect the emirate from threats like that of al-Qaeda. One line of defence is an elaborate intelligence network. Another is strict immigration controls. Migrant labour is a sensitive issue. “The entire economy is run on the backs of migrant workers,” claims Hadi Ghaemi of Human Rights Watch. More than 80% of workers in the United Arab Emirates' private sector are migrants. Despite a series of protests against low pay and poor working conditions, the government has taken little action. Trade unions and strikes are banned. Human Rights Watch found that 34 site-related deaths of construction workers were reported to the Dubai government in 2004, but Mr Ghaemi says it counted 880 dead bodies sent home by foreign embassies the same year. “They can't explain the deaths,” he adds.

As in other city states with firm controls, Dubai also keeps a grip on the media. Journalists exercise self-censorship, steering clear of stories critical of the ruling family or anything that might damage the economy. Even Skype, the free internet-phone service, is banned in order to protect the local telecoms provider. It remains to be seen whether such restrictions will continue as the UAE inches toward democracy—it will hold limited elections for the legislature in the coming week.

So far, the flush of new wealth and relatively good quality of life have trumped such issues in the minds of foreign investors. Expatriates worry aloud more about spiralling inflation and grinding traffic jams. If inflation continues unabated, the UAE “faces the danger of pricing itself out of the low end of the processing market in banking and insurance,” says Mr Booker.

There is a recognition that if tiny Dubai can succeed as a money giant, it will be tied closely to its role as a gateway to the Gulf, much as Hong Kong is a gateway to China. Yet it is not the first place to dream of becoming a Middle Eastern financial hub. Beirut filled that role until war wrecked its economy in the 1980s and investors shifted toward the Gulf. Bahrain, Qatar and Kuwait have all since found their niches. Abu Dhabi, a rival next door with its own financial ambitions is now trying to become a place for the arts. It has signed a deal to build the world's biggest Guggenheim museum and is in talks to build an offshoot of the Louvre as well.

One obstacle for other countries in the region is the life they offer foreigners. Many are seen as relatively strict and dull places to live. But Dubai is not. “We're living in an Islamic ocean and we're a tiny common-law island,” says Sandy Shipton, an expatriate executive at the Dubai financial centre.

One country with a particular bearing in Dubai is Saudi Arabia. So far, its conservative culture and restrictive religious practices have led many international firms to try to serve the country from regional offices in Dubai; other executives who work there park their families in Dubai and fly back at weekends. But the Saudis are becoming more demanding: they now require a business licence and a Saudi office for foreign firms doing business in their country. Work has also started on a new commercial hub called King Abdullah City, near Jeddah, that will target global firms.

Despite all the jockeying for the attention of international financiers, some see the emergence of several financial hubs in the Middle East as a healthy sign. Indeed, one possibility is the growth of various centres of excellence. “The new reality is you can have a very capable network,” says Ms Sassen. “It's not simply a winner-take-all situation.” She cites Singapore's ties with the Chinese city of Shenzhen as an example of regional collaboration.

Executives at the Dubai financial centre see the parallels with Asia and increasingly promote it as a complement to places like Singapore, rather than a competitor for them. The Omani oil-futures contract, for instance, was chosen as a benchmark for the new Dubai commodities exchange in part because the contract is used by oil traders in Singapore.

Dubai has spent a fortune and done virtually everything within its power to establish an attractive market. In the end, though, successful financial centres cannot be created by government fiat. Success now depends on forces that are largely beyond its control.

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Mortgage lending

Subprime subsidence

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From The Economist print edition

Parts of America's mortgage market are in turmoil. Some on Wall Street see this as an opportunity. Others are biting their nails

MORTGAGE lending is hardly the raciest business, but it has its moments. “It's a bit like the definition of combat: 59 minutes of boredom followed by a minute of sheer terror,” says Michael Youngblood, an analyst at Friedman, Billings, Ramsey, an investment bank. “And we seem to be going through another one of those minutes now.”

What has set pulses racing is subprime lending—mortgages extended at higher than normal rates to those with weak credit histories. In America, where it is most advanced, this market is under a lot of strain, and so, by extension, is the giant asset-backed securities market that is linked to it. The market for prime mortgages (those extended to higher-quality borrowers) is faring better, though it, too, is showing signs of weakness, exacerbated by cooling house prices. Might these troubles, some wonder, be the canary in the mine, warning of a looming credit crunch as investors, for years free with their money, recoil from risk?

Once a backwater, subprime is now very much in the mainstream. Annual loan originations grew fivefold between 2001 and 2005, to $625 billion, according to *Inside Mortgage Finance*, a newsletter.

But with rapid growth has come fragility. According to UBS, the rate of subprime-loan delinquencies of 60 days or more stood at around 8% in October, nearly double the rate of a year before. Foreclosures are also around twice as high as they were. Worse, loans are decaying remarkably quickly: the number of borrowers falling behind on payments in the first few months has leapt, to around 4% of the total. This has taken some analysts by surprise. But Anthony Sanders, finance professor at Ohio State University's Fisher College of Business, thinks they should have seen it coming: “With the traditional mortgage market flat, the growth has been in the one area nobody wanted to go into.”

This is already producing casualties. A number of mid-sized mortgage firms have failed in recent weeks. The latest, on December 7th, was Ownit Mortgage Solutions, the 17th-largest subprime lender. Others—such as H&R Block's Option One Mortgage—are for sale, their owners keen to leave the business. Earlier this month, in another bad sign, KeyCorp sold its subprime arm, Champion, for an undisclosed sum thought to be well below the $200m-250m tag analysts had put on it.

These troubles did not come out of the blue. Their origins lie in 2004, when some of the big subprime lenders began to compete hard for market share. By late 2005, this battle had pushed rates for ropy

borrowers down to a little over 7%. This led to a boom in new business as thousands scrambled onto the housing ladder.

But the Federal Reserve had already started raising short-term interest rates, flattening the yield curve, the difference between short and long rates. (Since banks borrow short and lend long, their margins are higher when the curve is steep.) When this began eating into lenders' profits, they reacted by pushing subprime rates back up. This time, though, they could not attract the same quality of borrower as before: with the housing market looking vulnerable, only the desperate were willing to borrow at interest rates of over 8%.

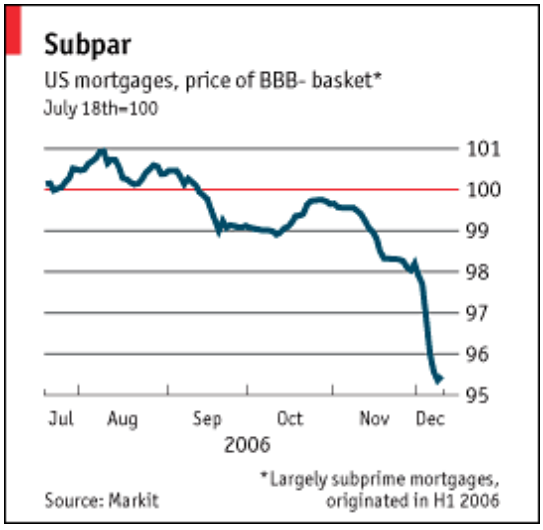
The lenders compounded their problems greatly by loosening their underwriting standards in a further attempt to keep business chugging along. Sometimes these were waived altogether. Adding insult to imprudence, they lured borrowers with “alternative” mortgage products, such as “negative amortisation” deals (where payments are so low that the overall debt gets bigger, not smaller) and adjustable-rate products (where teaser rates jump after a couple of years). Mark DiRienz of Moody's, a rating agency, says the “payment shock” was made worse by rules that allowed lenders to go from a low introductory rate straight to one much higher than the prevailing rate.

New subprime lending has tailed off this year as mortgage firms have, belatedly, become fussier about whom they will serve. They say they will plough more resources into vetting applications but, as Mr Youngblood points out, this would raise their costs. There is no easy way out.

Moody's and other debt-raters have cast a worried eye over the market, placing subprime deals on watch for a possible downgrade. Regulators are also twitchy. They have stepped up warnings about slack lending standards.

Nerves are also jangling in the capital markets. These days large numbers of housing loans are moved off banks' books, bundled together as so-called mortgage-backed securities (MBSs) and sold to investors. In theory, this helps the banks to reduce risk, makes money for intermediaries who trade the securities, and allows the investors to pick tranches of debt that match their risk appetite. Thanks to financial alchemy, an MBS made up of low-quality loans can still enjoy a good credit rating.

If too many of the home loans backing the security are toxic, however, investors will feel pain. That is happening now. The ABX Home Equity 06-2 index, whose price reflects the market's view of bonds rated BBB-minus backed by subprime loans made earlier this year, has fallen sharply since mid-November (see chart). Hedge funds and others have been using derivatives to short bonds backed by subprime mortgages.



Dubious mortgages are now a growing share of the mortgage-backed market, so there is scope for more trouble. Of the $1.02 trillion of MBSs issued in the first half of this year, over 40% was linked to subprime loans, up from 6-8% in 2000-03, says CreditSights, a research boutique.

In a sign of how important the MBS market has become to Wall Street's big securities firms, they are playing a lead role in consolidating the subprime business. Since the summer, Morgan Stanley, Merrill Lynch and Bear Stearns have all bought mortgage lenders; Lehman Brothers has acquired several in the past three years.

The point of this “vertical integration” is to feed the banks' securitisation desks, which are hungry for assets that can be profitably turned into fancy instruments: not only MBSs but also so-called collateralised debt obligations, pools of derivatives much loved by hedge funds. Owning your own mortgage originator also means not having to bid against other broker-dealers when housing loans come to market, thus saving money, says Art Frank, a mortgage strategist at Barclays Capital.

Although Wall Street has been taking some subprime lenders under its wing, it has been helping to push others towards bankruptcy. As the market has turned in the past year, the big banks have started scrutinising loans offered up for securitisation far more closely—and are throwing far more than they used to back at the subprime lenders. Moreover, they can force the lenders to repurchase securitised loans if they turn sour in their first few months of life. Merrill Lynch has been on both sides of this tussle: it had a 15% stake in Ownit, the firm that went bust last week.

Subprime's woes do not—yet—amount to a financial crisis. However, there could be more pain ahead, for instance when some $475 billion-worth of adjustable-rate mortgages switch to higher rates next year. And the better-quality bits of the market are also running out of steam. HSBC, the world's third-largest bank, has seen a deterioration across its American mortgage operations. Combined third-quarter profits for the country's nine largest mortgage lenders were $991m, less than half the level for the same period last year.

After years of loose money in financial markets, some observers think the mortgage morass could cause investors to rethink their attitude to other forms of credit risk, such as high-yield bonds. Housing loans are not the only area that has seen a weakening of underwriting standards. Where subprime goes, other businesses may follow.

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The Federal Reserve

Difference of opinion

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The economy, the Fed and the markets

THE outcome was never in doubt. On December 12th America's central bank kept short-term interest rates unchanged at 5.25%. What mattered was the statement accompanying the Federal Reserve's decision. Although Ben Bernanke and his colleagues gave a nod to the slowing economy (noting that the cooling of the housing market had been “substantial” and that recent economic indicators had been “mixed”), they repeated that they still considered inflation a bigger worry than weak growth.

That is not what Wall Street has been thinking. According to the latest Blue Chip monthly survey, four out of five financial forecasters reckon the central bank's next move will be to cut the federal funds rate. Some once-optimistic seers have been busy cutting their growth forecasts. The price of fed-funds futures suggests that financial markets see a 20% chance of lower interest rates by April. This had been close to 70%, but unexpectedly strong growth in jobs and then retail sales in November has caused some in the markets to think a rate cut less likely.

The central bankers are simultaneously more cautious and more optimistic than many on Wall Street. With core inflation still well above the 1-2% rate they unofficially deem appropriate, Mr Bernanke and his colleagues are genuinely worried about price pressure. Although fuel costs have fallen sharply, core consumer prices, which exclude the volatile categories of food and energy, still rose by 2.8% in the year to October. (November's figures will be released on December 15th.) The Fed's preferred price gauge, the core personal-consumption deflator, went up by 2.4% in the year to October, only a little short of the fastest pace for a decade. With inflation still too high, cautious central bankers see scant reason for abandoning their hawkish rhetoric.

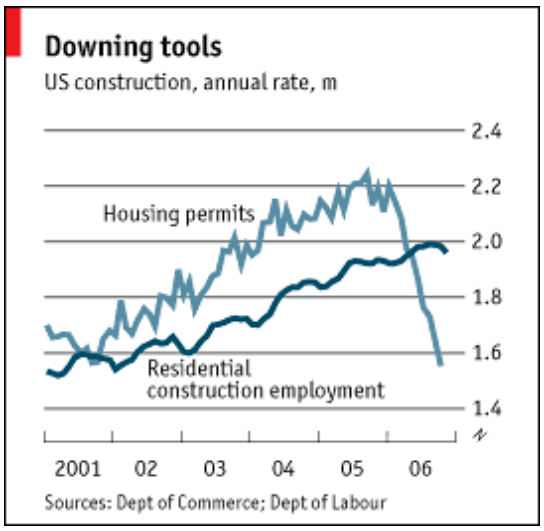
Below-trend is your friend

By the same token, the officials are less concerned by the risk of a slowdown than their counterparts on Wall Street are. Not only do the central bankers expect the economy to grow below its trend rate in the short term; they want it to. That is because a period of below-trend growth will help dampen inflationary pressure by increasing the amount of slack in the economy. Fed officials worry that labour markets, in particular, are too tight. In their July forecast the central bankers expected an average unemployment rate of between 4.75% and 5% for the fourth quarter of 2006 and 2007, well above today's 4.5%. Modestly higher joblessness would be welcome. That unemployment has not risen suggests the economy has not slowed much below its trend rate of growth.

If prudence is telling the central bankers to stand pat, so is their optimism. The Fed is not among those who believe that America's unexpectedly deep housing bust will drag the rest of the economy down. In a recent speech Mr Bernanke made it clear that he saw little sign of the housing recession spreading elsewhere. A stream of weak statistics in subsequent days, particularly a report hinting that manufacturing was in recession, suggested that his optimism might be misplaced.

A more recent lot of numbers, however, pointed the other way. Although manufacturing may be in trouble, the services sector, which is much bigger, is still looking strong. November's employment report was unexpectedly rosy. Despite net job losses in construction and manufacturing, the overall number of jobs rose by 132,000 and total job growth for the previous two months was revised up, too. Far more industries were adding workers than losing them. The unemployment rate rose by a whisker, from 4.4% in October to 4.5%, but this was the result of an increase in the number of people looking for work, not a lack of jobs. America's labour-force participation rate rose to a near four-year high.

With the labour market so strong, and inflation still uncomfortably high, the central bankers were sensible to sound hawkish this week. But the gloomier views on Wall Street may yet be proved right. Cheery jobs figures today do not preclude trouble tomorrow, since firms do not shed workers the instant demand slows.



Construction is an extreme case in point, largely because it takes several months to build a house. Although employment in the building industry has fallen by over 20,000 in each of the past two months, the drops are modest compared with the collapse in construction spending. The fall in permits issued for new houses suggests there may be many more job losses ahead (see chart). Economists at Goldman Sachs expect housing-related employment to fall by 1.5m-2m in the next couple of years. Unless employment growth in the rest of the economy speeds up and absorbs some of the surplus, the overall jobless rate will soon rise, perhaps rather further than the central bankers would like.

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Buttonwood

Weights and measures

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A squabble erupts over how best to create a stockmarket index

THE fundamental things apply, as time goes by. It was the favourite song of Humphrey Bogart and Ingrid Bergman in “Casablanca”. Now it could be the theme tune for a resistance effort of a different sort—one against the long-established way of drawing up stockmarket indices.

The new benchmarks are based on “fundamentals”; the profits, dividends, asset value and cashflows of the businesses they contain. But the indices, although they have their attractions, are already under attack from traditionalists.

Typically, stockmarket measures are based on the market value of the constituent businesses; if company A is priced at $100m and company B at $50m, then the index will be weighted two-thirds/one-third in favour of the former.

The virtue of such an approach is that it represents the market that an investor can actually buy. Indices were created so investors could have a sense of how the overall market is performing, and market value-weighted indices do this very well.

The problems arose when investors started to use indices as the basis for the way they filled their portfolios. If a share rises in price, its index weight increases. This would not matter if stockmarkets were efficient and shares were perfectly priced. But if they are not, market-value indices will tend to overweight expensive stocks and underweight cheap ones.

That is where fundamental indices can have an advantage. If stocks are weighted by objective measures, enthusiasts argue, then the irrationality introduced by the price mechanism is eliminated. And the process does seem to generate better performance. A study* by Robert Arnott and John West of Research Affiliates, an investment-management firm, found that a fundamental-weighted index beat the S&P 500 by an average of two percentage points a year over the period 1962-2005. The results were similar with smaller American stocks and international ones.

If the technique is so successful, why the controversy? For one, because people cannot decide which fundamentals to use. Research Affiliates compiles a composite measure of five-year averages of cashflow, sales and gross dividends, plus a company's book value. It has applied for a patent on the phrase “fundamental index” to establish its brand name.

But Jeremy Siegel, a respected professor from the University of Pennsylvania, has launched a rival index series under the WisdomTree brand that weights stocks solely on their dividends. This approach has the merit of simplicity, but the problem is that around a quarter of S&P 500 constituents pay no dividend at all. Dodd Kittsley of State Street Global Advisors, an investment manager, says that a dividend-based index will underweight technology stocks and overweight banks and utilities—sector-based bets that investors may well not want to make.

But while fundamental fans squabble over which measures to use, their whole ethos has come under attack. Earlier this year John Bogle, the founder of the Vanguard fund-management group, and Burton Malkiel, an academic, wrote a *Wall Street Journal* piece asserting that fundamental funds charge higher fees and incur higher trading costs than index trackers.

Meanwhile, Cliff Asness, of AQR Capital Management, argues that there is nothing new about fundamental indexing. The concepts have been used by value investors for over 50 years. As such, a fundamental index is really a bet on certain stocks; a gamble that has worked over time but is hardly revolutionary.

Both sides have a point. Clearly, the markets are not that easy to beat; if everyone bought stocks according to their fundamental weights, they could not all outperform. Fundamental indices benefit from the value effect, and their performance looks particularly good today, after six years in which value stocks have performed well. And Messrs Bogle and Malkiel are right to argue that the low-cost appeal of index funds will be diluted if too many bells and whistles are added.

Nevertheless, investors should welcome fundamental indices. They represent a disciplined way of exploiting the value bias in the markets. And trading costs should not be that high; Messrs Arnott and West estimate the annual turnover of a large-cap portfolio should be just 10%. Fundamental indices should not be compared solely with traditional index funds but also with active managers who can run up expenses of two percentage points a year. In contrast with them, as Bogey would say, fundamental-index expenses do not amount to a hill of beans.

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* "Fundamental Indexes: Current and Future Applications." *Institutional Investor*'s fifth annual Exchange-Traded Funds review.

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Credit Suisse

One bank, one shot

Dec 13th 2006 | ZURICH
From The Economist print edition

A Swiss bank's defensive strategy

TO AN American outfit four times its size, Credit Suisse may seem as tasty a morsel as the chocolates in Lindt & Sprüngli's window, across the Paradeplatz from the bank's headquarters. But Oswald Grübel, the chief executive, dismisses that idea with a puff of cigar smoke. Despite the takeover panic affecting many European banks, even of greater size, Credit Suisse needs no transformational deal, he insists. In fact it was glad this year to get rid of Winterthur insurance, which it bought in 1997 in the hope of succeeding as a financial conglomerate; it didn't.

Now the mantra is cost-cutting and streamlining, focusing on the core strengths of the second-biggest Swiss bank: private banking, investment banking and asset management. Under a “one bank” strategy it has erased the name of its investment-banking subsidiary, Credit Suisse First Boston. Despite only middling performance since this strategic change, and a low market valuation (around 11 times earnings), the bank's management is convinced it will now improve more rapidly than UBS, its bigger and more successful Swiss rival. UBS is already “priced for perfection” says a Swiss private banker, whereas Credit Suisse, if the strategy holds, is likely to show gains.

The bank is barely gaining market share in the hard-fought investment-banking markets, but it is cutting costs. And it has been adding to its private-banking and institutional assets under management. That is despite a dip in America, where it had an outflow of around $60 billion of managed assets between 2000 and 2004.

Mr Grübel makes much of efforts to cross-sell products between the bank's three divisions, for example selling investment-banking services to private-banking clients and vice versa. Initial results have been encouraging: the bank says 100 cross-selling deals have been done this year.

There is an incentive scheme whereby a banker who brings a deal to another department is allocated a bonus from a “single global currency pool”. Mr Grübel thinks that the bonus system should eventually go as bankers learn to collaborate. But will they in a world where rival services can be had at the click of a mouse? Probably not. Indeed, in the late 1990s Credit Suisse was one of the first private banks to introduce “open architecture”, whereby customers were offered rival investment funds as well as its own. And from the end of 2007 the European Union's Market in Financial Instruments Directive will make cross-selling harder.

But the bank's three specialist businesses are powerful in their own right, and focusing on them is better than chasing the spectre of universal banking. A study by Mercer Oliver Wyman, a consultancy, published this week, finds that financial institutions with sharply defined business models have done, and should do, better than less-focused conglomerates.

In some fields Credit Suisse is close to the top. It is the biggest manager of alternative investments, with some $108 billion invested in hedge funds, private equity and derivative products. It co-managed this year's biggest flotation, for Industrial and Commercial Bank of China, totalling $22 billion. In a few areas, however, such as leveraged lending for giant corporate takeovers, it is dwarfed by the American universal banks. Mr Grübel says that Credit Suisse has critical mass in its core businesses. Economies of scale only really work in retail banking, he says, and the bank has no plans to expand its retail base of 1.8m customers beyond Swiss borders.

A hostile takeover would destroy value, say consultants, and Mr Grübel seems in no mood to surrender command. At 63, a year beyond the bank's official retirement age for board members, he is enjoying a position that he never expected to attain—German-born, he joined the Credit Suisse group in 1970. The tightly knit Zurich business “mafia” think he lacks vision. On the other hand, there is no obvious

successor. The one-bank strategy and Mr Grübel are likely to occupy the Paradeplatz for a while.

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Chinese capital markets

Out of the shadows

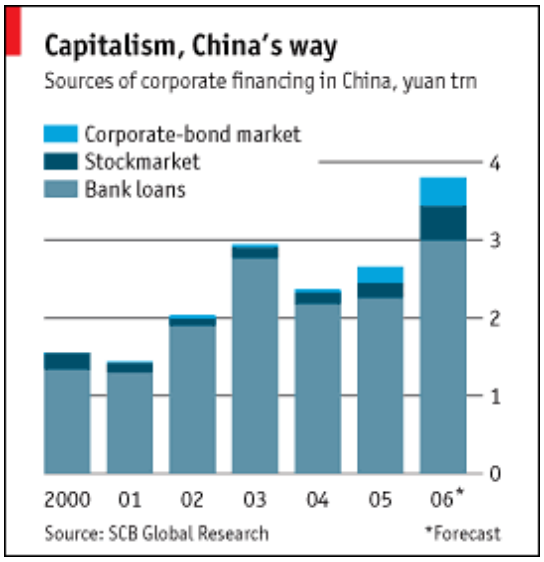
Dec 13th 2006 | HONG KONG
From The Economist print edition

New ways to recycle fat profits

COMMERCIAL bankers, nostalgic for the days when corporate customers still belonged to them rather than the capital markets, have for some time gazed longingly at China. Under sanction from regulators, Chinese banks pay 2% for deposits, lend at a bit more than 6%, and that is that. Loan losses are high, but the spreads are so large that with any semblance of credit discipline there should be room for profits. It is rather like what was once fondly referred to in New York as 3-3-3 banking: pay 3%, charge 3% more, and get out of the office (and on the golf course) by 3pm.

Change, however, is on its way. Capital-markets activity is growing and, according to recent research from two prominent academics, there may even be flickers of interesting activity in unregulated and hitherto unwatched corners of China's economy, where companies are recycling vast profits made abroad.

First the regulated markets. By the end of 2006, reckons Stephen Green, an economist at Standard Chartered, a bank, a record 21% of funding for Chinese companies will have come through the country's share and debt markets (the banks themselves have been the biggest share issuers). As the chart shows, funding from outside the banking system will have grown sixfold since 2002, to 806 billion yuan ($103 billion).



Even some of China's regulators have come round to believing that putting their faith in the capital markets might not be a bad idea. Since the local bond-market crumpled in the early 1990s, there have been severe restrictions on companies issuing long-term conventional bonds. So they have developed the short-term market instead. In May 2005 the People's Bank of China, the central bank, approved the issuance of bills, somewhat similar to commercial paper, which are issued by companies for periods of three months to a year. All that is needed is a credit rating and a registration (not an approval). Annualised rates are about 4%, perhaps not coincidentally halfway between banks' borrowing and lending rates, so both lenders and borrowers feel they are getting a bit extra. The market has exploded. During the first three-quarters of this year, $27 billion was raised, about 10% of the total amount of lending channelled through banks. Mr Green believes the demand for short-term debt has also shaken the long-term bond market out of its torpor, pushing issues from $8 billion to $13 billion.

More obscure, but still hugely popular, are other alternatives, such as “drafts” issued either directly by companies or by banks on behalf of companies. These are used instead of cash for purchase, and are settled within 90 days. They trade at a discount, but carry an interest rate just a bit over 3%. There are also “entrustment loans”—lending from one company to another with a pause at a bank, which receives a fee for giving a legal blessing to the transaction. According to Chinese law, firms cannot lend directly to one another.

But do they anyway? That is the contention in some striking research due to be issued on December 15th by two economists, Ronald Schramm, of the Columbia University Graduate School of Business, and Lin Guijun, of the University of International Business and Economics in Beijing. It looks at the huge amount of Chinese national savings and concludes that much of it does not seem to be captured by the banks. Where does it go? Some argue that it is used for internal investment by firms, or does not exist. Messrs Schramm and Guijun believe that companies secretly become lenders themselves.

In this informal market, they say, operating companies may be in a better position to evaluate credit than Chinese banks, which have short histories and as children of the state have frequently relied on politics rather than credit analysis to determine loan suitability. This would be all the more true if the recipients were suppliers to their creditors.

That, Mr Schramm believes, is the optimistic case. Alternatively, lending could be based on relationships, rather than returns, with the companies that extend credit using the same wretched loan criteria as China's banks traditionally have—but with even less pressure to reveal their problems.

If so, the amount of poor-quality lending will one day become so large that the problems can no longer be hidden. In the meantime, it is heartening to see some of this capital-markets activity coming out of the shadows. Investment bankers will see it as an opportunity, even if their commercial colleagues view it as a threat.

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Australian hedge funds

Big hitters

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From The Economist print edition

What happens when small investors play in the big leagues

AS A nation, Australians tend to get more excited at the prospect of slugging a ball around a cricket pitch than playing in the big leagues of international finance. But that does not mean they don't like to bat aggressively as investors, too. Unlike America and Europe, where regulators have shielded small investors from exotic investments, such as hedge funds, Australia allows its citizens to hold them as freely as it does mutual funds. So far this freedom has helped the local hedge-fund industry, without hurting the punters.

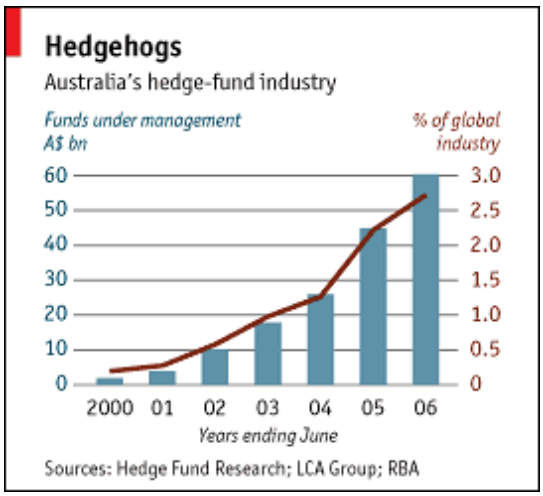
According to the Reserve Bank of Australia (RBA), the central bank, one of the most powerful forces behind the growth of hedge funds is their popularity among individuals, including ordinary folk with as little as A$1,000 ($785) to invest. In much of the rest of the world, access to hedge funds is usually restricted to the rich and to institutional investors.

But in Australia individual investors account for two-thirds of the A$60 billion invested in hedge funds, compared with just 44% globally. “In part, this high share reflects the regulatory regime, which does not limit retail access to hedge funds,” the RBA writes. Around 77 of the 200 hedge funds sold in Australia offer their products to the general public, sometimes over the internet, without officials batting an eyelid. “We sell loads of them,” says Ron Hodge, of InvestSMART, an online business that offers investments.

Australian hedge funds are no different from those elsewhere; they can involve borrowing, short-selling, and illiquid securities. Generally, they claim to safeguard investments even if markets fall, and the most popular strategy is one that bets on falling as well as rising share prices, or so-called long/short funds. Mutual funds, by comparison, simply buy assets in the expectation that prices will rise. Registration is mandatory, but there is no difference between the processes for hedge funds and mutual funds. The legal principle is that disclosure of important information, such as risks and fees, in sales documents, is enough to protect the public.

Financial advisers are often pushy in promoting hedge funds, which adds to the already high fees charged by the managers themselves. Typically, a financial adviser can collect up to an extra 1% of a client's assets each year. Yet more fees are paid to funds of hedge funds, which invest in a range of single-manager hedge funds rather than in the underlying securities.

In spite of the odd international blow-up, investment in Australian hedge funds has soared in recent years (see chart), and according to the RBA has even eclipsed the pace of growth in the global hedge-fund industry, where assets have reached around $1.5 trillion. Institutions are also stepping up their allocations to hedge funds; in 2005 almost one-third invested in hedge funds compared with less than 20% in 2003.



But recent returns, in the aggregate, are barely more impressive in Australia than anywhere else—especially after deducting fees. The RBA said hedge funds returned the same as local shares over the past five years, or 12% a year after fees, albeit with lower volatility.

At present there is little pressure to tighten up the industry. It is “fine as long as people go in with their eyes open,” says Frank Ashe, an associate professor of applied finance at Macquarie University. That attitude might change if something were to go horribly wrong with hedge funds. But

Australia, unlike much of the rest of the world, is hoping for the best.

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Economics focus

Shots across the Stern

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From The Economist print edition

Was Sir Nicholas's big report on climate change egalitarian, inegalitarian—or both?

TO SHOW that you are up to speed on global warming, you need to know your Rio summit from your Kyoto protocol; your Greenland pump from your carbon sink; and your Harald Sverdrup (a Norwegian oceanographer, who measured sea currents) from your Bjorn Lomborg (a Danish controversialist, who annoys greens). And as if all that were not enough, Sir Nicholas Stern's big report on climate change, published by the British government in October, has forced greenhouse gasbags to master another bit of esoterica: the Greek alphabet.

Actually, just two letters will do: delta and eta. The characters are Sir Nicholas's shorthand for two concepts. Delta determines the weight he places on the welfare of future generations that are not yet here to stick up for their own interests. Eta governs his answer to a different question: how much weight should be given to the consumption of the rich relative to that of the poor?

Just to recap, Sir Nicholas's report concludes that if greenhouse-gas emissions continue on their current path, the cost over the next couple of hundred years in terms of lost output could be colossal. The shorter-term costs of switching away from carbon need not be, however.

His judgments have been controversial, and none more so than his use of Greek, which has been questioned by two eminent economists and a flotilla of economic bloggers. The weight he gives to future generations is too high for the taste of William Nordhaus of Yale University. By contrast, the figure he picks for eta is too low for the comfort of Sir Partha Dasgupta of Cambridge University, who would give the consumption of the poor rather more emphasis than Sir Nicholas does in his treatise.

Sir Nicholas thinks a person born in 2106 should count for as much as one born in 2006. In his defence he cites some big thinkers, including Roy Harrod, a British economist best known as a growth theorist and a biographer of John Maynard Keynes, who thought discounting future generations was just a “polite expression for rapacity”. He admits there is a slim chance these prospective generations will not in fact exist: the earth might be wiped out by a meteorite, for example. For that reason, and that reason only, he discounts their welfare by just 0.1% for every year that passes before they appear.

Sir Nicholas's ethics may be appealing, but according to Mr Nordhaus the economics that follow from them are absurd. Barring any celestial collisions, there will be countless future generations, each with a claim on our consideration equal to our own. Suppose, he argues, that all these generations to come will suffer some minor inconvenience (a few extra mosquitoes, say) that we today could prevent at great cost to ourselves. By Sir Nicholas's moral calculus, even small harms amount to big losses when added up over enough cohorts. Thus we should take even crippling action to avert trivial hardships that may befall our long, long line of descendants.

The present deserves a break for another reason, Mr Nordhaus says. Future generations will not only be born later than us, they will also be richer—much richer. He points out that if consumption per person grows by 1.3% a year, it will rise from $7,600 today to $94,000 by 2200. And yet Sir Nicholas asks the present generation to make an economic sacrifice to help its richer successors.

Alphabetagammadelta soup

Redistribution from poorer to richer seems a bit perverse. Most people accept that a dollar is worth more to a pauper than to a plutocrat. But how much more? Sir Nicholas picks a value for eta of one, which

means a dollar is worth ten times more to someone with one-tenth of the income. This may sound like a big difference. But it means a 10% gain in the consumption of the poor—an extra ten cents for someone on a dollar a day—is worth no more in his moral calculus than a 10% bonus for the rich—an extra $100 for someone with a daily budget of $1,000.

Sir Partha thinks this gives the poor short shrift. He argues that an eta of between two and four yields “more ethically satisfactory consequences”. If eta were equal to two, a dollar would be worth one hundred times more to someone ten times poorer.

These shots at the Stern report whistle in from different directions, but Mr Nordhaus and Sir Partha both agree on one point: Sir Nicholas's choices are inconsistent with each other. If Sir Nicholas is such a staunch egalitarian between the future and the past, Sir Partha complains, he should be more egalitarian between the rich and the poor.

For his part, Mr Nordhaus argues that if Sir Nicholas insists on a relatively low value of eta, he must pick a higher value of delta: something like 3% not 0.1%. Otherwise, he argues, the present will always be held hostage to the future, forgoing its own consumption to further enrich all the generations to come.

Opponents of action on global warming have seized upon Sir Partha's sally against Sir Nicholas. But Sir Partha himself supports such efforts. “I have believed for some time that climate change is the most all-embracing problem humanity faces today,” he has written, “and would be happy to vote [to spend] 1.8% of the GDP of rich countries to confront the problem.”

His argument is not as self-contradictory as it sounds. The costs of fighting climate change would fall mainly on today's more affluent nations. Conversely, the benefits that will emerge in the distant future will be felt mostly in poorer countries. Bangladeshis or Somalis should be much better off in 50 years' time than they are now, but they will still be much less prosperous than the average American or western European is today. The high value of eta that Sir Partha advocates may not match that chosen by the Stern review. But it would still justify hefty sacrifices on the part of the rich to shore up the consumption of the poor, even if they have not yet been born.

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Microrefrigeration

Time to cool it

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The technology of cooling things, ignored for many years, suddenly seems important—especially for electronics

Alamy

REFRIGERATORS are the epitome of clunky technology: solid, reliable and just a little bit dull. They have not changed much over the past century, but then they have not needed to. They are based on a robust and effective idea—draw heat from the thing you want to cool by evaporating a liquid next to it, and then dump that heat by pumping the vapour elsewhere and condensing it. This method of pumping heat from one place to another served mankind well when refrigerators' main jobs were preserving food and, as air conditioners, cooling buildings. (Indeed, it barely stumbled even when the best sort of refrigerant turned out to wreck the ozone layer.) Today's high-tech world, however, demands high-tech refrigeration. Heat pumps are no longer up to the job. The search is on for something to replace them.

One set of candidates are known as paraelectric materials. These act like batteries when they undergo a temperature change: attach electrodes to them and they generate a current. This effect is used in infra-red cameras. An array of tiny pieces of paraelectric material can sense the heat radiated by, for example, a person, and the pattern of the array's electrical outputs can then be used to construct an image. But until recently no one had bothered much with the inverse of this process. That inverse exists, however. Apply an appropriate current to a paraelectric material and it will cool down.

Someone who is looking at this inverse effect is Alex Mischenko, of Cambridge University. Using commercially available paraelectric film, he and his colleagues have generated temperature drops five times bigger than any previously recorded. That may be enough to change the phenomenon from a laboratory curiosity to something with commercial applications.

The pursuit of power

As to what those applications might be, Dr Mischenko is still a little hazy. He has, nevertheless, set up a company to pursue them. He foresees putting his discovery to use in more efficient domestic fridges and air conditioners. The real money, though, may be in cooling computers.

Gadgets containing microprocessors have been getting hotter for a long time. One consequence of Moore's Law, which describes the doubling of the number of transistors on a chip every 18 months, is that the

amount of heat produced doubles as well. In fact, it more than doubles, because besides increasing in number, the components are getting faster. Heat is released every time a logical operation is performed inside a microprocessor, so the faster the processor is, the more heat it generates. Doubling the frequency quadruples the heat output. And the frequency has doubled a lot. The first Pentium chips sold by Dr Moore's company, Intel, in 1993, ran at 60m cycles a second. The Pentium 4—the last “single-core” desktop processor—clocked up 3.2 billion cycles a second.

Disposing of this heat is a big obstruction to further miniaturisation and higher speeds. The innards of a desktop computer commonly hit 80°C. At 85°C, they stop working. Tweaking the processor's heat sinks (copper or aluminium boxes designed to radiate heat away) has reached its limit. So has tweaking the fans that circulate air over those heat sinks. And the idea of shifting from single-core processors to systems that divided processing power between first two, and then four, subunits, in order to spread the thermal load, also seems to have the end of the road in sight.

One way out of this may be a second curious physical phenomenon, the thermoelectric effect. Like paraelectric materials, this generates electricity from a heat source and produces cooling from an electrical source. Unlike paraelectrics, a significant body of researchers is already working on it.

The trick to a good thermoelectric material is a crystal structure in which electrons can flow freely, but the path of phonons—heat-carrying vibrations that are larger than electrons—is constantly interrupted. In practice, this trick is hard to pull off, and thermoelectric materials are thus less efficient than paraelectric ones (or, at least, than those examined by Dr Mischenko). Nevertheless, Rama Venkatasubramanian, of Nextreme Thermal Solutions in North Carolina, claims to have made thermoelectric refrigerators that can sit on the back of computer chips and cool hotspots by 10°C. Ali Shakouri, of the University of California, Santa Cruz, says his are even smaller—so small that they can go inside the chip.

The last word in computer cooling, though, may go to a system even less techy than a heat pump—a miniature version of a car radiator. Last year Apple launched a personal computer that is cooled by liquid that is pumped through little channels in the processor, and thence to a radiator, where it gives up its heat to the atmosphere. To improve on this, IBM's research laboratory in Zurich is experimenting with tiny jets that stir the liquid up and thus make sure all of it eventually touches the outside of the channel—the part where the heat exchange takes place. In the future, therefore, a combination of microchannels and either thermoelectrics or paraelectrics might cool computers. The old, as it were, hand in hand with the new.

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Medicine

Don't say “aaag”

Dec 13th 2006
From The Economist print edition

A new way of looking at diseased lungs

THAT icon of the doctor's surgery, the stethoscope, could be on its way out if Igal Kushnir, an Israeli paediatrician, has his wish. Dr Kushnir observed that X-rays are traumatic for his young patients (not to mention bad for their health), and in any case provide only static images. Stethoscopes, although useful for initial diagnosis, are even less informative about the details. So he resolved to do better by borrowing and improving on another technique, the ultrasonic scanning that is used to look at fetuses in the womb.

Vibration-response imaging, as Dr Kushnir calls his invention, is better than ultrasonic scanning because it is passive. Instead of beaming sound into the body and looking at what is reflected back, it is able to turn the sound of air movement through the passageways of the lungs into a moving picture of what is going on inside those organs.

The input is provided by more than 40 microphones arrayed on a mat that is hung over the patient's back. These microphones record vibrations made by air passing through the bronchial tubes within the lungs. The signals are then passed to a computer, which synthesises them into an image. Background noises and the regular thump of the heartbeat are cleaned away by specially designed filters. The remaining data are processed by an algorithm that can recognise individual noises as they arrive at different microphones. It then works out whereabouts in the body each noise was produced by looking at the time it took to arrive at the different microphones.

The result is a picture that has enough resolution to pick up abnormalities in the composition of lung tissue and also shows unusual patterns of airflow that might be caused by disease. Not only is this better than a static X-ray, but because it does no harm it can be used repeatedly on the same patient. It also provides an instant picture, whereas most X-rays are photographic images that have to be developed, and are thus not available immediately. And, as a further bonus, the equipment needed to make the image should be cheaper than the kit required to take an X-ray picture.

Dr Kushnir has founded a company called Deep Breeze to develop the device, and it is now being tested in seven hospitals around the world—three in Germany, two in America and two in Israel. So far it has been tried on cancer patients, people who have undergone recent lung transplants, asthmatics and also those suffering from congestive heart failure.

Researchers from all seven centres will meet in Heidelberg on December 16th to discuss their results and swap ideas about how vibration-response imaging can be used in future. In particular, its lowish cost ($75,000 to buy the equipment, compared with around $100,000 for equivalent X-ray gear) and ease of operation should bring it within reach of clinics in poorer countries where X-radiography might not be an option. An Israeli team is about to begin a study on how the system might work for the diagnosis and monitoring of tuberculosis. A reasonably cheap, non-radiological way of doing that would be more than welcome in the poorer parts of the world.

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AIDS

The incredible melting condom

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A novel idea for stopping the transmission of HIV

AS HIV, the virus that causes AIDS, has spread, it has hit women increasingly hard. What was originally a predominantly male disease is now almost equally distributed between the sexes. Indeed, figures from UNAIDS, the United Nations agency responsible for fighting it, show that 74% of young people infected in sub-Saharan Africa are female.

Biology is part of the problem. The skin lining the vaginal tract and, in particular, the cervix, contains immune-system cells that make their way to the surface in response to infection. These are cells of the type that HIV infects. But social mores are also culpable. In many cases, the virus is passed on by older men—who have had more time to become infected—taking teenagers as mistresses. A man who wants to protect himself can don a condom. To achieve the same end, a woman must persuade him to do so, and no amount of pleading can ensure that this happens.

One proposed answer is vaginal microbicides. These are virus-killing gels and creams that a woman can use without male permission and, indeed, without the man necessarily knowing that they are there. Five such microbicides are in advanced-stage tests at the moment, but all suffer from the fact that they must be applied only an hour or two before sex, in order to minimise the chance that they will leak away. One improvement could be flexible rings that sit at the neck of the cervix and release microbicidal drugs for several weeks. But for convenience's sake, nothing would beat gels and creams that hang around for more than a few hours.

Patrick Kiser, of the University of Utah, and his colleagues, believe they may have hit on the answer. Their solution, described in the *Journal of Pharmaceutical Sciences*, is more than a metaphorical analogy to the condom. They envisaged a microbicide-containing lining for the vaginal tract that is a squishy solid rather than a liquid. That would prevent it leaking out. But they also imagine that this instant condom would be clever enough to melt on cue, releasing anti-HIV drugs whenever it comes into contact with semen.

The problem is that to get a solid microbicide to all the right places, it is easiest if it starts off runny. To find an appropriate material, Dr Kiser assembled a “library” of polymer mixtures and searched for one with the peculiar property of being liquid at room temperature, but solid at body temperature. In the substance he eventually lit on, this happens because at room temperature there are chemical bonds between polymer molecules and water molecules. That makes the whole thing fluid. At body temperature, the polymer-water bonds weaken, and the polymer molecules prefer to bond with each other. The mixture thus solidifies.

Temperature, however, is not the only thing that can cause this polymer to shift from liquid to solid and back. It is also sensitive to acidity. Vaginas are notably acidic environments. Seminal fluid, on the other hand, is alkaline. Sexual intercourse thus causes the pH inside the vagina to change. That shift rips protons from the molecular chains of Dr Kiser's jelly-like solid, leaving exposed negative charges primed to form bonds with water molecules. As a result, the microbicide re-liquefies. When it does so, any drugs caged in the molecular scaffolding of the solid should be released.

Dr Kiser's experiments suggest that they are, indeed, released—at least in the laboratory. The next step will be to make sure that his polymer, or something similar, is safe for use in the human body. Then it would need to be tested for efficacy, and that whole process would take several years. Nevertheless, the idea that HIV might be stopped by a liquid condom is quite an appealing one. And no pleading need be involved.

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Palaeontology

Triassic bark

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From The Economist print edition

An ancient, microscopic zoo preserved in amber

SADLY, the idea of growing extinct animals from DNA found in amber exists only in the febrile imagination of Michael Crichton. Nevertheless, fossils from amber provide a unique insight into ecosystems past by preserving small organisms such as insects that coarser-grained rocks tend to chew up as they form. The latest finds, however, are small even by those standards, and they are also surprisingly old. They come from the Triassic period, about 220m years ago—a time when dinosaurs, although they existed, were merely one group among many striving to dominate the paleoecosystem.

The discoveries in question, bacteria and single-celled animals and plants, have been made by Alexander Schmidt, of Humboldt University in Berlin, and his colleagues, and are reported in this week's *Nature*. The amber comes from near Cortina d'Ampezzo, a town in the Italian Dolomites.

Amber is fossilised tree resin, and the trees in question were conifers living on the northern edge of a long-vanished ocean called Tethys. The amber itself is in the form of small tear-drop shaped pieces that accumulated on the bark of the trees. When it was still sticky it trapped organisms living on the bark of those trees.

The result is microscopic cornucopia. Bacteria abound, as do single-celled fungi. There are also numerous tiny algae, some of which have been caught in the act of dividing in two. All of these creatures, though, lie at the bottom of a food chain whose next members were Dr Schmidt's most interesting finds.

Ciliates and amoebae are both types of single-celled animal. What makes the ones in this Triassic amber intriguing is that, under the microscope at least, they appear identical to modern examples. One of the ciliates belongs to a genus called *Coleps*, and one of the amoebae can be identified not only to a genus, but to a species: *Centropyxis hirsuta*.

Given how much the vertebrate fauna changed over the subsequent millions of years, that is, at first sight, astonishing. It is as if a rabbit had turned up in a Triassic rock, or *Plateosaurus* still walked the Earth today. At second sight, though, it emphasises a point often forgotten about evolution—that if it finds something that works, it sticks with it. Most natural selection is not about change, but stasis. Extreme variants are eliminated because they are less fit than the average. And the upshot is that in the microscopic world, at least, you may not need fossil DNA to breed ancient organisms. Taking a swab from the nearest tree would do almost as well.

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Clarification: stem-cell therapy

Dec 13th 2006
From The Economist print edition

It was not clear in the article on stem-cell therapy, "An appointment with chance" (December 2nd), that the *New England Journal of Medicine* paper we cited was about the magnetic-particle tracking method described in the piece, and not the clinical outcome for the patients. That was reported separately. Sorry about the confusion.

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Ariel Sharon

Lights and shades

Dec 13th 2006
From The Economist print edition

EPA

The personification of Zionism, or a stain on its character?

“THE question then must be asked,” reflected a recent unfriendly psycho-history of Zionism: “Is Sharon an aberration, or does he represent Israel's dark night of the soul? Is he a travesty, or rather does he, by giving flesh to an abiding logic of Zionist thought, bring to fruition the nation's most powerful, unanswerable vision of itself?”

Ariel Sharon has been in a coma for almost exactly a year, after a stroke cut him down at a moment of extraordinary popularity. As prime minister he had just forced all of Israel's settlers to evacuate their villages in the Gaza Strip. He had reacted to a mutiny from his Likud party by creating a brand-new centrist party, Kadima, which was expected easily to win the forthcoming general election. A former general and war hero at the head of a party offering a two-state solution: to many Israelis, Mr Sharon looked like a peace-bringer.

Why do so many Israelis admire a man who so many outsiders regard with revulsion? A reading of these biographies suggests that part of the explanation has to do with memory. To outsiders, Mr Sharon is the hawk who eschewed compromise and set his face against Palestinian statehood. But that view is based on a caricature of Israel as it strikes much of the world now: the strong and expansionist country that resorts to violence instead of compromise. Israelis remember things differently.

Nir Hefez and Gadi Bloom are Israeli journalists. They have written a workmanlike biography. Uri Dan is not only a journalist but also his subject's lifelong confidant, and much of his book is a record of his own conversations with Mr Sharon. Both biographies nonetheless start at more or less the same time and place: the battle of Latrun in 1948, during which Arik Scheinerman, as he was then, was badly wounded. It was a chaotic defeat for the Israelis. Many of the Jewish soldiers who took part were, unlike the native-born Sharon, Holocaust survivors who had only just disembarked from Europe.

Ariel Sharon: A Life
By Nir Hefez and Gadi Bloom

Random House; 490 pages; $29.95

Buy it at
Amazon.com
Amazon.co.uk

Ariel Sharon: An Intimate Portrait
By Uri Dan

Palgrave Macmillan; 320 pages; $27.95 and £16.99

Buy it at

Amazon.com
Amazon.co.uk

The defeat at Latrun had a formative influence on Mr Sharon. Most Israelis, but especially those old enough to remember their war of independence, find it hard to accept the world's view of their country as the region's all-powerful bully-boy. To Mr Sharon, the survival of the Jewish state could never be taken for granted, and the perennial enmity of the Arabs had always to be met by military power and an iron will. Many Israelis still feel this way: indeed, their mistrust has increased since the years of *intifada* and the rise of Hamas and a militant Iran, which both say they seek Israel's destruction. To that extent, Mr Sharon was no “aberration”.

In exercising military power, did he make a habit of breaking the rules of war? In 1953 Mr Sharon commanded a raid against the Jordanian village of Qibya, in which some 70 civilians were killed. Both biographies skip lightly over the incident, simply reporting Mr Sharon's lame excuse, which Israel's leaders claimed to believe, that his soldiers failed to notice the villagers hiding in the attics and cellars of the houses that were dynamited. The Sabra and Shatila massacre in Lebanon in 1982 receives fuller treatment. Mr Hefez and Mr Bloom quote extensively from the inquiry that found Mr Sharon guilty as defence minister of failing to reduce the danger of a massacre before letting Lebanon's Christian militiamen into the Palestinian refugee camps. But they reserve their own judgment. Mr Dan quotes mainly his good friend's protestations of innocence.

Both books would be better if they made their own judgments more explicit. But by placing Mr Sharon's life in the context of Israel's intractable conflicts they perform a service. Here was a fearless, charismatic and ruthless soldier in a state which, like many, has done bad things in half a century of wars. As a politician he was often intransigent. He dragged Israel into the quagmire of Lebanon and masterminded the colonisation of the West Bank and Gaza, thus making peace harder to achieve. He could also be supremely pragmatic, as in eventually accepting the idea of an independent Palestine and evacuating Israel's Gaza settlements. Israel's enemies brand him a war criminal who personifies the sins they consider inherent in Zionism. But his story, like the lights and shades of the conflict that shaped it, is a lot more complicated than that.

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Random House; 490 pages; $29.95

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About sponsorship

A president remembers

The Carter version

Dec 13th 2006
From The Economist print edition

JIMMY CARTER won a Nobel peace prize for bringing peace between Israel and Egypt at Camp David in 1978. Since then he has devoted his career to good causes, mainly through the Carter Centre, which helps to monitor elections and resolve conflicts around the world. Now he has stepped forthrightly back into the Middle East with a book promising to address "many sensitive political issues many American officials avoid".

How daring. The book has certainly prompted a reaction. A former director of the Carter Centre resigned as one of the centre's fellows in protest at its inaccuracies. Harvard's Alan Dershowitz called the book so biased against the Jewish state as to be "indecent". A luminary from the Washington Institute for Near East Policy was "saddened" by all the former president's historical errors.

Since some of these critics are what some would call the usual (pro-Israeli) suspects, pro-Palestinian readers may hope that Mr Carter takes on the fabled power of America's Jewish lobby. He does describe the misery of the occupied lands, calls for Israel to return to its pre-1967 borders and offers a few risqué paragraphs about a White House and Congress which the former president says have been "submissive" in the face of Israel's expansionism.

Palestine: Peace Not Apartheid
By Jimmy Carter

Simon & Schuster; 264 pages; $27. To be published in Britain by Simon & Schuster in February

Buy it at
Amazon.com
Amazon.co.uk

This may pass as daring in America. But tweaking the pro-Israel lobby is not the same thing as writing a good book. And this is a weak one, simplistic and one-sided as charged. Israeli expansionism gets the drubbing it deserves; Arab rejectionism gets off much too lightly.

Why? Perhaps because Mr Carter was had at Camp David. Egypt and Israel made the peace they craved by offering the Palestinians not much more than autonomy—and future talks. As Mr Carter now ruefully admits, Israel's Menachem Begin saw peace with Egypt as the main prize and intended to "finesse or deliberately violate" the undertaking to the Palestinians. What the former president does not dwell on enough is the extent to which the Palestine Liberation Organisation, and indeed most of the Arab world apart from Egypt, made Begin's job easy. They rejected the Camp David accords, and not until 1988—a full decade after Camp David—did Yasser Arafat grudgingly accept Israel's right to exist. By then it was a different Israel.

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About sponsorship

Post-war Britain

Right, tight and screwed-down

Dec 13th 2006
From The Economist print edition

PETER HENNESSY'S publisher does not hide his author's light under a bushel. The cover of his book quotes the late Hugo Young, an influential British political columnist, who judged Mr Hennessy to be a “national treasure”. Philip Ziegler, a royal biographer and historian, calls him the most resourceful and assiduous of burrowers into archival material. Adam Sisman, a literary biographer, declares that Mr Hennessy remains a “hybrid”—a journalist as well as a historian, who also interviews the players in his story. Besides that, Mr Hennessy is also an autobiographer, playing a bit part himself. “I come”, he writes, “from a British historical tradition that is uneasy with high politics absorbed neat.” This unusual brew defines the contemporary historian, an academic niche that Mr Hennessy has helped to make respectable.

Having It So Good: Britain in the Fifties
By Peter Hennessy

Allen Lane; 740 pages; £30

Buy it at
Amazon.com
Amazon.co.uk

He was born in 1947, and he reports that his first clear memory is from the start of his account of Britain in the 1950s, when he was just four years old. He celebrates steam engines such as the A3 Pacific, which, he says in a faintly cringe-making aside, was “top of the range for little old train-spotting me at the time”. Yet Mr Hennessy is stronger on high politics than he is on the social rigidities that still prevailed in Britain.

Burrowing among the archives, Mr Hennessy discovered that the then prime minister, Anthony Eden, effectively admitted to the cabinet on October 23rd 1956, before the invasion of Egypt, that secret conversations had been held in Paris with representatives of the Israeli government. He regards the fact that the cabinet did not press Eden on this evidence of conspiracy as “one of the greatest failures of cabinet government in the post-war years”. (Not equalled, he writes—bringing contemporary history right up-to-date—until the cabinet discussions on the invasion of Iraq in 2002-03.)

Another intriguing revelation concerns a plan produced in 1952 called ROBOT, in some ways an early exercise in Thatcherism, which Mr Hennessy describes as the economic equivalent of Suez. The idea was a cold-turkey cure for endemic balance-of-payments problems, turning economic management on its head by floating sterling and letting the market dictate the exchange rate. ROBOT was the baby of the chancellor, R.A. Butler, but Winston Churchill eventually disowned it when he learned that it might double unemployment and cut government spending. The old man was too fond of the co-existence of capital and labour in “the British New Deal” to upset it.

None of the anxious political debate about ROBOT was known to Labour or was hinted at in the newspapers. That was to be expected. The acceptance of hierarchy in British society permitted the government to retain its secrets with little challenge or resentment. (So said Edward Shils, a distinguished sociologist of the period.) But instinctive deference was going out of fashion among the young, who reacted against what Butler termed “Victorian corsetry”. Their agenda was a long one: in the 1950s homosexuality, abortion and off-course gambling were all illegal; books and theatres were still censored; murderers were hung. It is a civil servant who describes Britain as a “right, tight, screwed-down society, walled-in in every way”. For men and women who reached adulthood in the 1950s, the unscrewing of British society was what caused the 1960s rather than the 1950s to be a colourful and exciting time to be alive.

Mr Hennessy is skilled at detecting great movements in the tectonic plates of politics and diplomacy, and his account of the sweep of a decade in which Britain ceased to be a great power is compelling. On the social agenda, however, he is less convincing. Perhaps he was a little too young to understand just how oppressive a walled-in society could be.

Having It So Good: Britain in the Fifties.
By Peter Hennessy.
Allen Lane; 740 pages; £30

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About sponsorship

International crime fiction

Tales of many cities

Dec 13th 2006
From The Economist print edition

WHEN Raymond Chandler first despatched Philip Marlowe, his fictional private detective, to the grimy back streets of Los Angeles, he launched a model for intelligent crime fiction. The hardboiled hero is cynical but sensitive, philosophical but wordly. He might bend the law, but he rarely breaks it. He has a mangled personal life and likes a drink, but not to excess. More than 60 years after Marlowe first set off into the night, Chandler's classic model has spread across the world. In many ways it has hardly evolved. But in the hands of a skilled author it does not need to. Just as Chandler unpeeled Los Angeles, all of these fine crime novels work their magic by taking the reader on a journey to places that tourists never see.

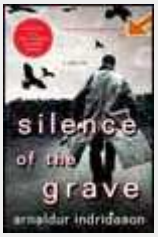
“Silence of the Grave” is an especially dark odyssey. Scandinavian crime fiction has long explored the underside of the apparently sunny, if not smug, social-welfare state, and Reykjavik here is a place of quiet desperation. Inspector Erlendur Sveinsson's beat is not the tourist city of hot springs and trendy artists, but a claustrophobic, parochial village. Its youth, including Sveinsson's daughter, Eva Lind, seek refuge in drugs. The book begins with the discovery of a decades-old body. The plot switches between the present day and the second world war. “Silence of the Grave” sometimes seems too obviously choreographed and it is not hard to predict the denouement. But the powerful writing has enough twists, not least about Sveinsson's own haunted past, to keep the reader hooked. It probably won't do much for Reykjavik's tourist trade, but it is a fascinating window on to another Iceland.

“A Case of Two Cities” is the fourth outing for Inspector Chen Cao, of the Shanghai Police Bureau. When a police officer is found dead in a brothel Inspector Chen is charged by Communist Party bosses with unravelling a complex web of corruption that reaches to the highest levels of the government. Protected by a special warrant that gives him extraordinary powers to investigate wherever he likes, Chen soon discovers more than is good for him. But is he being set up for a fall?

Chen is an engaging figure: he quotes poetry, loves food and the descriptions of feasts of dumplings and snacks are mouth-watering. He pines for an American marshal whom he met on a case, but knows they can never be together. Shanghai is vividly drawn, crackling with energy—and a scintillating cast includes corrupt property speculators, shady party officials and the city's new rich loafing around in Starbucks. Yet even though Chen sees the faults and contradictions of China's political system, he remains a patriot and is immensely proud of his country's history and culture.

Fred Vargas's hero, Commissaire Jean-Baptiste Adamsberg, is studying DNA crime-detection techniques in Quebec. At the same time he is on the trail of a trident-wielding serial killer. The victims date back to 1943, the most recent dying in 2003. Adamsberg is convinced that the killer is the sinister Judge Fulgence, reported dead 16 years earlier. But no one else agrees, including the Quebec police. When Adamsberg's new lover is found dead, pierced with three evenly spaced stab wounds, Adamsberg cannot account for his movements. He goes on the run to track down Judge Fulgence. The hunter is also the hunted. This is a neat about-turn that transforms a decent detective novel into a gripping

Silence of the Grave
By Arnaldur Indridason



St Martin's Minotaur; 288 pages; $22.95.
Vintage; £6.99

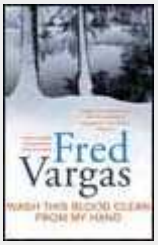
Buy it at
Amazon.com
Amazon.co.uk

A Case of Two Cities
By Qiu Xiaolong

St Martin's Minotaur; 320 pages; $24.95.
Hodder and Stoughton; £11.99

Buy it at
Amazon.com
Amazon.co.uk

Wash This Blood Clean from My Hand
By Fred Vargas



Harvill Secker; 388 pages; £11.99

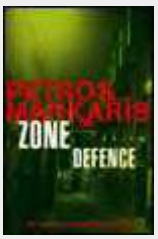
Buy it at
Amazon.com

chase thriller.

Inspector Costas Haritos, of the Athens CID, breaks the Chandleresque mould. Haritos is married, and only mildly henpecked. He loves his wife, his daughter and his job. “Zone Defence”, by Petros Markaris, a playwright who has translated Goethe's “Faust” into Greek, is the second outing for Haritos. Like Inspector Chen, he is a likeable cop. Chen reads poetry, Haritos reads dictionaries. He has a fine sense of humour, well served by Mr Markaris's translator, David Connolly, and a wry cynicism that evokes smiles rather than pity. Haritos is on holiday when an earthquake uncovers a buried corpse with its fingerprints burnt off. The case takes him into Athens's underworld of organised crime and football and the narrative is peppered with football metaphors. The Greek capital, with its smog, traffic jams, strikes and noisy chaos, is marvellously drawn. Like Reykjavik and Shanghai in the other books, Athens is a character in its own right, and a powerful sense of place evokes the very smell of the city. Just as crime is now international, so is crime fiction—one benefit of globalisation that carries no cost.

Amazon.co.uk

Zone Defence
By Petros Markaris



Harvill Secker; 336 pages; £11.99

Buy it at
Amazon.co.uk

Silence of the Grave.
By Arnaldur Indridason.
St Martin's Minotaur; 288 pages; $22.95.
Vintage; £6.99

A Case of Two Cities.
By Qiu Xiaolong.
St Martin's Minotaur; 320 pages; $24.95.
Hodder and Stoughton; £11.99

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Harvill Secker; 388 pages; £11.99

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Harvill Secker; 336 pages; £11.99

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Christmas tips

Problems you did not know you had

Dec 13th 2006
From The Economist print edition

WHAT better to give for Christmas than a book that explains how to wrap presents, carve the turkey and wash up afterwards? That is doubtless the aim of the chirpy Rosemarie Jarski, a former au pair and author of this compendium of household and other advice.

Books filled with commonsensical tips on life and how to live it are numerous and mostly bad, with Martha Stewart's snobby and fiddly lifestyle guides being among the worst. Shirley Conran's 1975 “Superwoman”, with its advice to stop fussing, to buy proper equipment and household chemicals, and to concentrate on fun, was one of the best. “Life is too short to stuff a mushroom,” she famously said.

Ms Jarski's book would make Ms Stewart wince, and Ms Conran cheer. It is utterly unambitious in the kitchen department: the reader learns how to cook pasta, boil vegetables, make tea and carve meat, and little else. But that plain fare is leavened with titbits of knowledge of the world outside the kitchen that even the savviest reader may lack: for example, the terminology and etiquette of sushi, or the way that smelly books can be de-odourised with bicarbonate of soda (how they become smelly is not explained). Ms Jarski's recommendations for descaling a shower-head *in situ* are truly ingenious.

Tying the Perfect Parcel: Everything You Should Know How To Do
By Rosemarie Jarski

New Holland; 304 pages; £9.99

Buy it at
Amazon.co.uk

This is a wisely constructed menu. A list of tips, however necessary, aimed solely at the most dimwitted or ignorant readers would be too shameful to give, or to read. The trick is to provide the most basic information about life (for example, a solemn page on the correct use of lavatory paper: how to hang it and, worse, how to use it) in a format that looks amusing and stimulating for the general reader.

Ms Jarski's assumption—probably correct—is that skill in dealing with chores and household management does not travel as easily between generations as it once did. A mixture of convenience food, life on the hoof, indulgent parents and sulky teenagers means that, for example, students newly living away from home as they start university may be blessedly ignorant of the simplest domestic tasks. A book that unstuffily explains the basics of tidiness, hygiene and organisation may be surprisingly useful.

There are three weaknesses. Some of the advice is wrong, or incomplete. Lemon juice or vinegar is a much handier way of removing chewing gum from fabric than the eucalyptus oil that the author recommends. Second, some of the tips (making beeswax furniture polish) would have seemed arcane even 50 years ago and give a whiff of borrowing from other, older authorities. There is a suspicious lack of acknowledgments, let alone a bibliography. Third, the tone is so relentlessly bright that even the most laid-back reader may end up wanting to hurl the book into a pile of dirty laundry and retire to an unmade bed with a takeaway meal.

As for those parcels? The advice is excellent, if a bit demanding. Use foreign comics as unusual wrapping paper, or use a *furoshiki* cloth, Japanese-style (try a napkin, scarf or handkerchief). Less originally: put irregular-shaped presents in boxes to make them easy to wrap neatly.

Tying the Perfect Parcel: Everything You Should Know How To Do.
By Rosemarie Jarski.
New Holland; 304 pages; £9.99

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About sponsorship

A film to watch

Black and white and smoky

Dec 13th 2006 | LOS ANGELES
From The Economist print edition

Never say goodbye to Berlin

Steven Soderbergh seeks sex, lies and film noir in Berlin

"THE GOOD GERMAN", which goes out on general release in America on December 22nd and opens in Britain at the end of February, is an engaging murder mystery set against the background of the Potsdam peace conference in the summer of 1945.

An American war correspondent, Jake Geismer (George Clooney), returns to Berlin to report on the deliberations between Joseph Stalin, Winston Churchill and President Harry Truman, but that is just a pretext. He is really looking for Lena (Cate Blanchett), a German woman with whom he is in love, who worked as his stringer when he ran a news bureau in Berlin before the war. He finds Berlin, and Lena, quite changed.

Tobey Maguire, fresh from his triumphs as Spider-Man, plays Patrick Tully, the baby-faced corporal in Joseph Kanon's novel, who is assigned to be Jake's driver and who turns out to be a vicious thug basking in the corruption of post-war Berlin. Tully, Jake learns, is the latest man Lena has slept with in order to survive, but the shock of that discovery is nothing compared with the secrets he unearths when he sets out to solve a murder committed in the Russian zone—where all trails seem to lead back to Lena.

There are tributes to earlier camera work. Truman, Churchill and Stalin—busy at the task of trying to decide how to administer defeated Nazi Germany—appear as bit players glimpsed in newsreel footage. Some of the ruined streets through which Tully drives Jake were filmed for "A Foreign Affair"—Billy Wilder's sardonic post-war melodrama about an innocent American in Berlin, who gets caught in the spider-web of a recycled Nazi diva played by Marlene Dietrich.

A skilful pastiche of 1940s film-making, "The Good German" was shot mostly on soundstages and back-lot streets built during that era. Whereas the classics it emulates sought authenticity by filming on overseas locations, Mr Soderbergh flaunts the artifice of the genre we call *film noir*, recreated in the appropriate colours: blacks darker than night and whites that give off an infernal glare.

Like his namesake Jake Gittes in "Chinatown", Jake Geismer can take a licking and keep on ticking, but the plot in which he is entangled raises even more tangled issues of the kind one would expect to find in a John le Carré novel. The mix of genres works because the story is set in a time and place where the good war was already turning into the cold war, with its questionable means and uncertain ends.

The cynical summing-up line—"Nobody ever leaves Berlin"—is uttered by Ms Blanchett, who should always wear 1940s clothes and be photographed in black and white. A gifted performer, she has never

looked more stunning than she does in this tribute to an era when a mere thriller could be—as this one so clearly is—entertaining, sexy and smart.

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About sponsorship

Augusto Pinochet

Dec 13th 2006
From The Economist print edition

Reuters

Augusto Pinochet Ugarte, dictator of Chile, died on December 10th, aged 91

Get article background

THE world got its first glimpse of Augusto Pinochet on September 11th 1973. The presidential palace, La Moneda, had been bombed a few hours earlier on his instructions; Salvador Allende, Chile's Marxist president, had committed suicide in the ruins. The new four-man military junta now appeared on television with General Pinochet, the recently appointed army commander, at its head.

He looked the archetype of a Latin American dictator, with sunglasses, small moustache and defiant stare. Many upper-class Chileans shuddered at him: the son of a customs agent from Valparaíso who barked out poor grammar in a high breaking voice, or else mumbled in a whisper.

Yet a majority in Chile's Congress, and probably most of its citizens, backed the coup. Many believed the army would restore order and then call elections. General Pinochet swiftly disabused them. To eliminate communism required ending democracy, which, as he put it later, was “no longer able to confront an enemy that has destroyed the state”.

The violence he unleashed had no precedent in Chile. Thousands of Allende supporters were rounded up across the country. In all, 3,200 were murdered under his dictatorship, half of them in the first year. Many of those “disappeared”, arrested and then presumed killed while the regime disavowed all knowledge of them, a technique General Pinochet perfected. Some 30,000 more were tortured. Congress was dissolved, political parties and trade unions banned; those opposition leaders who survived were exiled. The repression quickly became selective and surgical, but fear did its job. For 17 years General Pinochet ruled over a police state.

He was uncouth and boorish, prone to banging the table with his revolver at junta meetings. From boyhood, influenced by his French step-grandfather, he had admired Napoleon and wanted to be a soldier; but he was gangling, thin and unstudious, and managed to join the army only at the third attempt. He took 16 years to progress from second-lieutenant to major. Military life, however, stimulated an interest in geopolitics and history which got him a teaching job at the War Academy and inspired him

to pen a few undistinguished books. The regime's chief challenge in 1973, said its first spokesman, was to turn this dull man into someone who “dresses like a president, talks like a president and has the teeth of a president”.

Yet, with the power of the army behind him, General Pinochet achieved a personal dictatorship. His mediocrity hid a ruthless cunning and a sense of political opportunity. His first step was to centralise the rival intelligence agencies of each armed service in the DINA, a new security agency reporting directly to him. Next, he turned to civilians to run the economy. Rarely for Latin America, General Pinochet did not pursue economic nationalism or a strong role for the state. A group of free-market economists gained his ear, preaching privatisation, trim budgets and free trade; he endorsed their ideas, and sustained growth followed.

As the generals returned to barracks elsewhere, General Pinochet moved to make his “protected democracy” permanent. His advisers, admirers of Franco's fascist dictatorship in Spain, wrote a constitution that gave the army a permanent tutelary role. But it called for a referendum on General Pinochet's rule in 1988 and, to his surprise, he lost.

Ruling by numbers

He had meant to be more careful than that. His life was austere, disciplined and watchful of the hand of providence. He never smoked, rarely drank and boasted of needing only five hours' sleep a night, waking at 5.30 to a life ruled by the clock. Even on holiday, his time was minutely planned: half an hour's snooze in the sun, a swim for ten minutes, a walk for 15. Fortune-tellers were regularly consulted. Indeed, the date of the referendum, October 5th, had been chosen because he believed that his lucky number was five.

After that democracy returned: a centre-left alliance won power. But General Pinochet remained as army commander, then as senator-for-life, boasting that “not a leaf stirred” in Chile without his knowledge. The country was in his thrall—until his arrest in 1998 in a London clinic, at the request of a Spanish judge. The procedure was controversial, the first time a former head of state had been detained under international human-rights law, and at the request of his doctors he was eventually sent home. But his 16 months of comfortable house arrest in Surrey encouraged Chile's judiciary to pick holes in the amnesty the dictatorship had granted itself.

General Pinochet liked to portray himself as the selfless defender of God and country against atheist communism. Some of his friends, chief among them Lady Thatcher, appeared to support this view, ostentatiously taking tea with the doddering old man and stroking him with praise. But it emerged that he had up to $27m stashed abroad, as well as several false passports. That made him look like just another grasping, brutal *caudillo*.

The courts closed in. Only claims—often unconvincing—of poor health blocked a trial. He insisted that he had acted for the benefit of all Chileans. By the end, few believed him.

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Overview

Dec 13th 2006
From The Economist print edition

America's merchandise-trade deficit narrowed in October, to $65.1 billion from $70.3 billion in September, as cheaper oil cut import prices and exports rose. In November the unemployment rate ticked up to 4.5%, from 4.4% the month before, partly because of a rise in job-market participation. Employment in services rose strongly, outweighing falls in construction and manufacturing. The Institute for Supply Management, in its twice-yearly forecast, said purchasing managers were optimistic about 2007, both in manufacturing and in other industries.

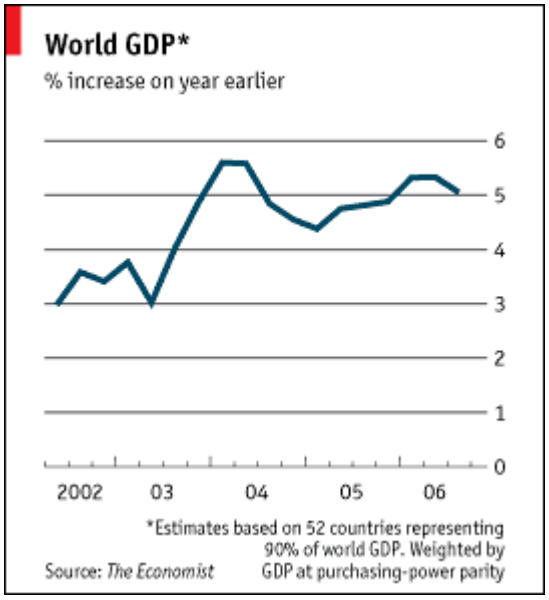
INSEE, **France's** national economics institute, predicted that the economy would rebound strongly in the fourth quarter, having not grown at all in the third. Industrial production rose by 0.3% in October; September's decline is now said to be 0.8%, less than first thought. So far, net trade seems unlikely to chip in much to fourth-quarter GDP growth: the deficit widened in October.

In **Italy** industrial production rose by 0.6% in October. In **Germany** production fell by 1.4% in the same month, while the trade surplus rose to $21.8 billion. The ZEW survey of analysts' expectations perked up in December, having declined for ten months running.

Britain's consumer-price inflation rate in November was 2.7%, the highest since the series began in January 1997. **Swedish** inflation rose to 1.7%, reinforcing expectations of a rise in interest rates on December 15th.

Japan's third-quarter GDP growth was revised downwards, to 0.2%.

Global GDP grew by an estimated 5.1% in the year to the third quarter, down a bit from 5.3% in the year to the second.



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Output, demand and jobs

Dec 13th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 2.2	Q3	+ 1.2	+ 2.6	+ 3.0	– 3.0	Q2	+ 3.2	Q3	4.6	Nov	5.1
Austria	+ 3.2	Q3	+ 3.6	+ 2.8	+ 2.3	+ 5.9	Sep	+ 0.6	Sep	4.7	Nov	5.2
Belgium	+ 3.1	Q3	+ 2.5	+ 2.8	+ 2.0	+ 1.8	Sep	– 2.5	Sep	12.3	Oct†	13.2
Britain	+ 2.7	Q3	+ 2.7	+ 2.6	+ 2.4	+ 0.6	Oct	+ 3.9	Oct	5.6	Sep‡	4.7
Canada	+ 2.5	Q3	+ 1.7	+ 2.8	+ 2.5	– 1.7	Sep	+ 8.4	Sep	6.3	Nov	6.4
Denmark	+ 3.8	Q3	+ 2.5	+ 3.3	+ 2.3	+ 5.1	Oct	+ 0.7	Oct	4.1	Oct	5.4
France	+ 1.8	Q3	– 0.1	+ 2.1	+ 2.0	+ 2.3	Oct	+ 2.9	Oct	8.8	Oct	9.7
Germany	+ 2.8	Q3	+ 2.6	+ 2.4	+ 1.5	+ 3.2	Oct	– 0.8	Oct	10.2	Nov§	11.5
Italy	+ 1.7	Q3	+ 1.1	+ 1.7	+ 1.3	+ 3.7	Oct	+ 0.2	Sep	7.0	Q2	7.8
Japan	+ 1.6	Q3	+ 0.8	+ 2.8	+ 2.0	+ 7.4	Oct	– 0.1	Oct	4.1	Oct	4.5
Netherlands	+ 2.6	Q3	+ 2.6	+ 2.7	+ 2.3	+ 2.1	Oct	+ 2.8	Sep	5.5	Oct††	6.5
Spain	+ 3.8	Q3	+ 3.6	+ 3.5	+ 2.9	+ 7.4	Oct	+ 3.0	Oct	8.4	Oct	8.8
Sweden	+ 4.4	Q3	+ 4.1	+ 4.4	+ 3.2	+ 2.6	Oct	+ 9.3	Oct	4.6	Oct†	5.6
Switzerland	+ 2.4	Q3	+ 1.5	+ 2.9	+ 2.1	+ 4.3	Q2	+ 2.3	Sep	3.1	Nov†	3.7
United States	+ 3.0	Q3	+ 2.2	+ 3.3	+ 2.2	+ 4.9	Oct	+ 5.8	Oct	4.5	Nov	5.0
Euro area	+ 2.7	Q3	+ 2.0	+ 2.6	+ 1.9	+ 3.3	Sep	+ 1.1	Oct	7.7	Oct	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 5.8	Q3	+ 3.6	na	na	+ 1.2	Oct	+ 4.4	Oct	7.9	Oct	8.1
Greece	+ 4.4	Q3	na	na	na	+ 1.6	Oct	+12.2	Sep	8.8	Q2	9.6
Iceland	+ 2.6	Q2	na	na	na	na		na		1.0	Sep†	1.4
Ireland	+ 5.0	Q2	+ 3.6	na	na	+ 5.8	Oct	+ 3.9	Sep	4.5	Nov	4.5
Luxembourg	+ 5.4	Q2	na	na	na	– 0.2	Aug	+ 0.5	Oct	4.5	Oct	4.4
New Zealand	+ 1.6	Q2	+ 1.7	na	na	+ 0.5	Q2	+ 1.0	Q3	3.8	Q3	3.7
Norway	+ 2.6	Q3	+ 5.2	na	na	– 4.5	Oct	+ 8.3	Oct	3.3	Sep**	4.8
Portugal	+ 1.5	Q3	– 0.6	na	na	+ 3.5	Oct	– 0.1	Oct	7.4	Q3†	7.7

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Jul-Sep; claimant count rate 3.0% in Oct.
§EU harmonised rate 8.2% in Oct. ††Aug-Oct. **Jul-Sep.

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Prices and wages

Dec 13th 2006
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2006	The Economist poll consumer prices forecast 2007	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 3.9	Q3	+ 3.0	+ 3.4	+ 2.7	+ 7.9	Q3	+ 6.2	+ 3.9	Q3	+ 6.0
Austria	+ 1.1	Oct	+ 2.0	+ 1.6	+ 1.6	+ 3.5	Nov	+ 0.9	+ 2.7	Oct	+ 2.3
Belgium	+ 1.5	Nov	+ 2.6	+ 2.2	+ 1.9	+ 5.6	Oct	+ 1.6	+ 2.4	Oct	+ 2.3
Britain	+ 2.7	Nov*	+ 2.1	+ 2.3	+ 2.1	+ 1.8	Nov	+ 2.3	+ 3.9	Sep†	+ 4.1
Canada	+ 0.9	Oct	+ 2.6	+ 2.1	+ 2.0	+ 1.2	Oct	+ 1.6	– 0.2	Sep	– 1.9
Denmark	+ 1.7	Nov	+ 2.0	+ 1.9	+ 1.9	+ 2.5	Oct	+ 4.3	+ 3.1	Q3	+ 2.8
France	+ 1.4	Nov	+ 1.6	+ 1.9	+ 1.5	+ 2.4	Oct	+ 3.0	+ 2.9	Q3	+ 3.1
Germany	+ 1.5	Nov	+ 2.3	+ 1.7	+ 2.2	+ 3.7	Nov	+ 2.2	+ 0.6	Sep	+ 1.0
Italy	+ 1.8	Nov	+ 2.2	+ 2.2	+ 1.9	+ 4.9	Oct	+ 4.0	+ 3.3	Oct	+ 3.0
Japan	+ 0.4	Oct	– 0.8	+ 0.2	+ 0.5	+ 2.7	Nov	+ 2.0	+ 0.6	Oct	+ 0.4
Netherlands	+ 1.0	Nov	+ 1.8	+ 1.6	+ 1.7	+ 2.1	Oct	+ 4.6	+ 2.0	Nov	+ 0.9
Spain	+ 2.5	Oct	+ 3.5	+ 3.6	+ 2.8	+ 3.4	Oct	+ 4.9	+ 3.1	Q2	+ 3.4
Sweden	+ 1.7	Nov	+ 0.8	+ 1.4	+ 1.8	+ 4.2	Oct	+ 4.1	+ 2.5	Sep	+ 3.5
Switzerland	+ 0.5	Nov	+ 1.0	+ 1.2	+ 1.1	+ 2.3	Oct	+ 1.1	+ 1.0	2005	+ 0.9
United States	+ 1.3	Oct	+ 4.3	+ 3.3	+ 2.1	– 1.6	Oct	+ 5.9	+ 4.1	Nov	+ 3.0
Euro area	+ 1.8	Nov	+ 2.3	+ 2.2	+ 2.1	+ 4.0	Oct	+ 4.2	+ 2.4	Q2	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.8	Oct	+ 0.8	na	na	+ 5.8	Oct	+ 3.3	+ 3.5	Q3	+ 4.0
Greece	+ 2.9	Nov	+ 3.5	na	na	+ 2.3	Oct	+ 6.3	na		na
Iceland	+ 7.0	Dec	+ 4.1	na	na	+12.2	Nov	+ 3.9	+11.0	Oct	+ 6.9
Ireland	+ 3.9	Oct	+ 3.0	na	na	+ 0.1	Oct	+ 0.9	+ 4.1	Q2	+ 3.5
Luxembourg	+ 2.0	Nov	+ 2.5	na	na	+ 9.5	Sep	+ 3.3	+ 0.4	Aug	+ 1.1
New Zealand	+ 3.5	Q3	+ 3.4	na	na	+ 6.9	Q3	+ 6.1	+ 3.2	Q3	+ 3.1
Norway	+ 2.6	Nov	+ 1.8	na	na	+ 6.7	Nov	+17.9	+ 3.8	Q3	+ 2.7
Portugal	+ 2.7	Oct	+ 2.7	na	na	+ 2.6	Oct	+ 4.0	+ 0.8	Sep	– 1.1

*RPI inflation rate 3.9% in Nov. †Jul-Sep.

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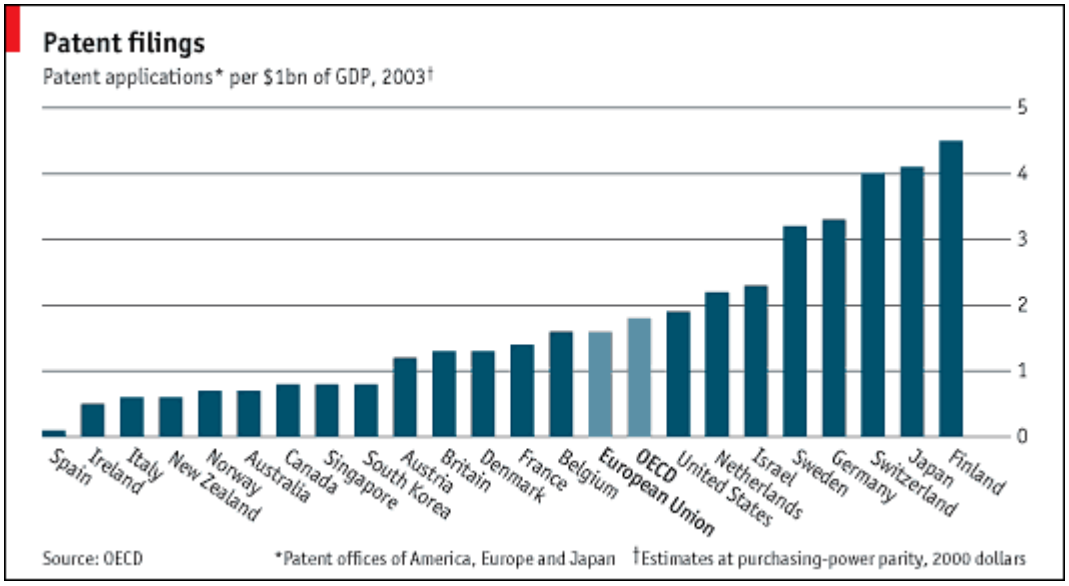
Patent filings

Dec 13th 2006
From The Economist print edition



Relative to its GDP, Finland files the most patents at the world's main patent offices—in America, Europe and Japan—according to the OECD. South Korea's ranking is impressive: it filed very few patents a decade ago. China's patents are too few to be included in our chart, but are increasing by around 30% a year. Because applications are disclosed only 18 months after filing, 2003 is the latest year for which data are available.

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Money and interest rates

Dec 13th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Dec 12th 2006)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+11.4	+13.0	Oct	6.39	5.63	6.07	5.65	5.46	6.85
Britain	+ 5.5	+14.1	Oct	5.25	4.59	5.03	4.61	4.26	5.65
Canada	+14.2	+ 8.6	Oct	4.17	3.32	3.86	3.89	4.16	5.06
Denmark	+ 8.2	+ 9.1	Oct	3.62	2.45	3.78	3.69	3.34	5.07
Japan	+ 0.3	+ 0.7	Nov	0.44	0.02	0.80	1.65	1.56	1.79
Sweden	- 0.6	+10.6	Oct	2.93	1.69	3.58	3.58	3.38	3.90
Switzerland	- 2.3	+ 2.4	Oct	1.99	1.04	2.35	2.41	2.04	2.67
United States	- 0.4	+ 4.8	Oct	5.23	4.23	4.61	4.49	4.53	5.47
Euro area†	+ 6.3	+ 8.5	Oct	3.67	2.46	3.75	3.70	3.37	4.37

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.62%, Japan No. 284 1.64%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.50%, BOJ overnight call 0.25%, BOE repo 5.0%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Dec 13th 2006
From The Economist print edition

2000=100

	Dec 5th	Dec 11th*	% change on one month	% change on one year
Dollar index				
All items	188.3	185.9	+ 2.0	+ 29.8
Food	153.8	152.9	+ 1.4	+ 20.9
Industrials				
All	232.8	228.7	+ 2.6	+ 38.6
Nfa†	136.9	138.5	+ 3.4	+ 0.9
Metals	285.2	277.9	+ 2.4	+ 54.3
Sterling index				
All items	144.8	144.3	− 1.1	+ 17.5
Euro index				
All items	130.8	130.1	− 1.1	+ 17.2
Yen index				
All items	201.0	202.0	+ 1.5	+ 26.6
Gold				
$ per oz	643.28	629.77	+ 1.4	+ 20.0
West Texas Intermediate				
$ per barrel	62.46	61.30	+ 5.1	+ 0.0

*Provisional. †Non-food agriculturals.

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Stockmarkets

Dec 13th 2006
From The Economist print edition

Market indices

	Dec 12th	2006 high	2006 low	% change on one week	% change on record high	Dec 30th 2005 in local currency	Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,456.1	5,461.6	4,708.8	+ 0.8	– 0.1	+15.9	+24.0
Austria (ATX)	4,297.5	4,344.4	3,324.1	+ 1.9	– 1.1	+17.2	+31.6
Belgium (Bel 20)	4,290.3	4,290.3	3,445.1	+ 2.8	nil	+20.9	+35.7
Britain (FTSE 100)	6,156.4	6,254.9	5,506.8	+ 1.1	– 11.2	+ 9.6	+25.5
Canada (Toronto Composite)	12,858.5	12,915.7	10,904.3	– 0.3	– 0.4	+14.1	+15.6
Denmark (OMXCB)	416.5	416.5	325.0	+ 1.5	nil	+13.2	+27.2
France (SBF 250)	3,853.0	3,900.4	3,244.2	+ 1.3	– 12.2	+16.7	+31.0
France (CAC 40)	5,426.8	5,511.5	4,615.4	+ 1.3	– 21.6	+15.1	+29.2
Germany (DAX)*	6,476.2	6,476.2	5,292.1	+ 1.6	– 19.7	+19.7	+34.4
Italy (S&P/MIB)	40,865.0	40,894.0	34,850.0	+ 1.1	– 18.4	+14.5	+28.5
Japan (Nikkei 225)	16,637.8	17,563.4	14,218.6	+ 2.3	– 57.2	+ 3.3	+ 4.1
Japan (Topix)	1,636.7	1,783.7	1,458.3	+ 2.4	– 43.3	– 0.8	nil
Netherlands (AEX)	482.7	497.5	412.9	+ 1.1	– 31.2	+10.5	+24.0
Spain (Madrid SE)	1,561.7	1,564.6	1,156.8	+ 1.4	– 0.2	+35.1	+51.6
Sweden (Affarsvarlden Gen)	355.7	355.7	275.2	+ 3.6	– 11.1	+21.2	+41.6
Switzerland (Swiss Market)	8,670.1	8,835.6	7,154.9	+ 2.6	– 1.9	+14.3	+25.3
United States (DJIA)	12,315.6	12,342.6	10,667.4	– 0.1	– 0.2	+14.9	+14.9
United States (S&P 500)	1,411.6	1,414.8	1,223.7	– 0.2	– 7.6	+13.1	+13.1
United States (NASDAQ Comp)	2,431.6	2,466.0	2,020.4	– 0.8	– 51.8	+10.3	+10.3
Europe (FTSEurofirst 300)†	1,462.5	1,473.8	1,238.7	+ 1.6	– 14.2	+14.7	+28.7
Euro area (FTSE Euro 100)†	1,257.2	1,270.0	1,050.0	+ 1.3	– 18.9	+15.4	+29.6
World (MSCI)‡	1,471.4	1,471.4	1,243.9	+ 0.3	nil	+17.0	+17.0
World bond market (Citigroup)††	667.4	675.0	612.1	– 1.0	– 1.1	+ 7.6	+ 7.6

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Dec 13th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2006	2007	Exchange rate trade-weighted† 2000=100 Dec 13th	year ago	Currency units per $ Dec 13th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2006‡
Australia	− 10.2	Oct	− 39.5	Q3	− 5.5	− 5.1	120.0	119.2	1.27	1.33	2.50	1.69	1.09	+ 2.5
Austria	− 1.2	Sep	+ 9.2	Q2	+ 1.4	+ 1.4	105.8§	104.9	0.76	0.84	1.48	–	0.64	− 1.3
Belgium	+ 16.0	Sep	+ 6.5	Jun	+ 1.8	+ 2.1	107.5§	106.5	0.76	0.84	1.48	–	0.64	nil
Britain	−149.4	Oct	− 64.4	Q2	− 2.6	− 2.7	103.4	99.3	0.51	0.57	–	0.67	0.43	− 3.0
Canada	+ 51.6	Oct	+ 28.9	Q3	+ 1.4	+ 0.8	124.4	126.1	1.15	1.15	2.27	1.53	0.98	+ 0.9
Denmark	+ 7.5	Oct	+ 7.7	Oct	+ 2.3	+ 2.2	106.7	106.0	5.63	6.24	11.1	7.45	4.81	+ 3.4
France	− 36.3	Oct	− 41.5	Sep	− 1.6	− 1.3	108.4§	107.2	0.76	0.84	1.48	–	0.64	− 2.7
Germany	+194.6	Oct	+114.8	Oct	+ 3.1	+ 3.2	110.2§	108.6	0.76	0.84	1.48	–	0.64	− 2.3
Italy	− 26.4	Sep	− 39.1	Sep	− 2.3	− 1.9	108.1§	106.9	0.76	0.84	1.48	–	0.64	− 4.8
Japan	+ 76.7	Oct	+168.3	Oct	+ 3.7	+ 3.7	78.7	81.9	117	120	230	155	–	− 4.6
Netherlands	+ 38.2	Oct	+ 63.2	Q3	+ 7.3	+ 6.3	108.4§	107.3	0.76	0.84	1.48	–	0.64	− 0.4
Spain	−107.4	Sep	− 98.4	Aug	− 8.2	− 8.0	105.9§	105.1	0.76	0.84	1.48	–	0.64	+ 1.4
Sweden	+ 19.3	Oct	+ 26.2	Q3	+ 6.5	+ 6.1	101.3	95.0	6.81	7.91	13.4	9.02	5.82	+ 2.9
Switzerland	+ 9.2	Oct	+ 55.3	Q2	+13.8	+12.9	105.4	107.2	1.20	1.29	2.36	1.59	1.03	+ 0.2
United States	−842.2	Oct	−838.1	Q2	− 6.6	− 6.4	82.8	86.4	–	–	1.97	1.32	0.85	− 2.3
Euro area	− 24.1	Sep	− 35.3	Sep	− 0.3	− 0.1	120.5	115.7	0.76	0.84	1.48	–	0.64	− 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 11.3	Sep	+ 11.8	Sep	na	na	109.3§	108.0	0.76	0.83	1.48	–	0.64	+ 2.5
Greece	− 41.3	Sep	− 26.8	Sep	na	na	105.0§	104.1	0.76	0.83	1.48	–	0.64	− 2.6
Iceland	− 1.9	Oct	− 3.9	Q3	na	na	86.0**	102.3	69.4	62.1	136	91.9	59.3	+ 4.1
Ireland	+ 37.1	Sep	− 6.0	Q2	na	na	113.7§	112.0	0.76	0.83	1.48	–	0.64	+ 1.0
Luxembourg	− 5.4	Sep	+ 4.2	Q2	na	na	107.5§	106.5	0.76	0.83	1.48	–	0.64	− 1.3
New Zealand	− 4.3	Oct	− 10.2	Q2	na	na	132.8	141.2	1.45	1.41	2.85	1.92	1.24	+ 3.5
Norway	+ 57.7	Oct	+ 56.0	Q3	na	na	108.0	110.0	6.16	6.61	12.1	8.16	5.26	+ 19.3
Portugal	− 23.1	Sep	− 16.8	Sep	na	na	106.0**	105.2	0.76	0.83	1.48	–	0.64	− 4.6

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, September average. ‡OECD forecast. **IMF, July average.

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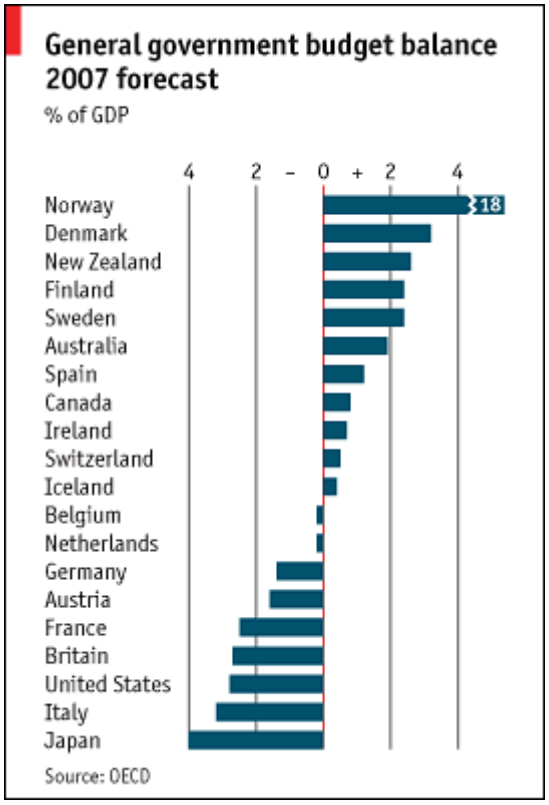
General government budget balance 2007 forecast

Dec 13th 2006
From The Economist print edition



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Overview

Dec 13th 2006
From The Economist print edition

Hungary's GDP grew by 3.8% in the year to the third quarter, the same as in the year to the second. **The Czech Republic's** growth rate slipped to 5.8% in the year to the third quarter, from 6.2% in the second. Its 12-month rate of consumer-price inflation rose to 1.5% in November, from 1.3% in October.

China's consumer-price inflation rate went up to 1.9% last month, from 1.4% in October. Its trade surplus rose again in the year to November, to $168.3 billion.

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Economy rankings

Dec 13th 2006
From The Economist print edition

In the league table of the world's biggest economies, four of the fastest climbers in the past 20 years have been in East Asia. Israel has also leapt up the rankings, matching South Korea and Hong Kong by rising a dozen places. China has risen only four notches—but even in the early 1980s it was already the world's tenth-biggest economy in current dollars. India, perhaps surprisingly, has barely budged. Several oil producers have fallen down the rankings, despite the increase in oil prices towards the end of the period covered.

Economy rankings

Ranks by size of economy*, 1=largest

	1980-84	2001-05	Change
Singapore	59	39	*+20*
Taiwan	32	18	*+14*
South Korea	23	11	*+12*
Hong Kong	42	30	*+12*
Israel	48	36	*+12*
Hungary	52	45	*+7*
Turkey	27	21	*+6*
Malaysia	43	38	*+5*
China	10	6	*+4*
Egypt	46	42	*+4*
Mexico	13	10	*+3*
Thailand	38	35	*+3*
Chile	47	44	*+3*
Poland	26	25	*+1*
Pakistan	44	43	*+1*
Czech Republic	41	41	*nil*
India	11	12	*-1*
Indonesia	20	23	*-3*
Brazil	9	13	*-4*
South Africa	22	28	*-6*
Philippines	40	46	*-6*
Saudi Arabia	15	22	*-7*
Argentina	21	29	*-8*
Russia	7	16	*-9*
Venezuela	25	37	*-12*
Iran	17	33	*-16*
Nigeria	33	49	*-16*
Ukraine	30	53	*-23*

*Five-year average of GDP in current dollars

Source: World Bank

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Economy

Dec 13th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+10.4	Q3	+14.9	Nov	+ 1.9	Nov	+168.3	Nov	+160.8	2005	987.9	Sep
Hong Kong	+ 6.8	Q3	+ 5.3	Q2	+ 2.0	Oct	−16.7	Oct	+18.6	Q2	132.7	Nov
India	+ 9.2	Q3	+ 6.2	Oct	+ 7.3	Oct	−45.0	Oct	−13.2	Q2	168.4	Nov
Indonesia	+ 5.5	Q3	+ 6.3	Sep	+ 5.3	Nov	+38.3	Oct	+ 4.1	Q2	38.4	Oct
Malaysia	+ 5.9	Q3	− 0.8	Oct	+ 3.1	Oct	+28.4	Oct	+20.0	Q2	79.3	Oct
Pakistan	+ 6.6	2006†	+ 6.8	Sep§	+ 8.1	Oct	−12.8	Nov	− 5.0	Q2	11.0	Oct
Philippines	+ 4.8	Q3	− 8.3	Sep	+ 4.7	Nov	− 3.8	Sep	+ 4.3	Jun	19.5	Nov
Singapore	+ 7.2	Q3	+ 1.5	Oct	+ 0.4	Oct	+35.0	Oct	+39.0	Q3	135.3	Nov
South Korea	+ 4.6	Q3	+ 4.6	Oct	+ 2.2	Nov	+16.7	Nov	+ 4.0	Oct	229.5	Oct
Taiwan	+ 5.0	Q3	+ 1.1	Oct	+ 0.2	Nov	+22.0	Nov	+26.3	Q3	265.1	Nov
Thailand	+ 4.7	Q3	+ 5.4	Oct	+ 3.5	Nov	− 0.1	Oct	+ 2.0	Oct	60.7	Oct
Argentina	+ 7.9	Q2	+ 7.3	Oct	+10.0	Nov	+11.6	Oct	+ 7.4	Q2	28.0	Oct
Brazil	+ 3.2	Q3	+ 4.8	Oct	+ 3.0	Nov	+45.4	Nov	+14.0	Oct	78.2	Oct
Chile	+ 2.9	Q3	+ 4.7	Oct	+ 2.1	Nov	+21.9	Nov	+ 5.2	Q3	17.2	Nov
Colombia	+ 6.0	Q2	+14.9	Sep	+ 4.3	Nov	+ 0.4	Sep	− 2.2	Q2	15.3	Nov
Mexico	+ 4.6	Q3	+ 5.0	Sep	+ 4.1	Nov	− 5.8	Oct	− 1.3	Q3	82.5	Oct
Peru	+ 7.4	Sep	+ 8.2	Sep	+ 1.5	Nov	+ 8.2	Oct	+ 1.8	Q3	15.8	Nov
Venezuela	+10.2	Q3	+12.2	Sep	+15.8	Nov	+36.8	Q3	+29.7	Q3	27.2	Sep
Egypt	+ 5.9	Q1	+ 4.0	2005†	+11.8	Oct	−11.1	Q2	+ 3.5	Q2	25.7	Nov
Israel	+ 4.8	Q3	+ 6.2	Sep	− 0.2	Oct	− 7.6	Oct	+ 6.7	Q3	28.5	Nov
Saudi Arabia	+ 4.7	2006‡	na		+ 2.5	Sep	+125.6	2005	+90.0	2005	24.9	Sep
South Africa	+ 4.5	Q3	+ 7.5	Oct	+ 5.4	Oct	− 8.7	Oct	−13.5	Q3	22.5	Nov
Czech Republic	+ 5.8	Q3	+12.8	Oct	+ 1.5	Nov	+ 1.8	Oct	− 5.2	Q3	31.3	Nov
Hungary	+ 3.8	Q3	+10.6	Oct	+ 6.3	Oct	− 2.9	Oct	− 7.6	Q2	20.7	Oct
Poland	+ 5.8	Q3	+14.6	Oct	+ 1.2	Oct	− 3.8	Sep	− 5.9	Sep	45.2	Oct
Russia	+ 7.4	Q2	+ 5.4	Oct	+ 9.1	Nov	+141.2	Oct	+101.4	Q3	281.0	Nov
Turkey	+ 3.4	Q3	+ 2.5	Oct	+ 9.9	Nov	−52.7	Oct	−34.4	Oct	57.5	Oct
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+11.6	Q3	+ 7.0	Oct	+ 4.6	Nov	− 3.0	Sep	− 2.0	Sep	2.4	Sep
Latvia	+11.8	Q3	+ 3.9	Oct	+ 6.4	Nov	− 4.4	Sep	− 3.4	Sep	3.9	Sep
Lithuania	+ 6.3	Q3	na		+ 4.4	Nov	− 4.6	Sep	− 2.8	Sep	4.3	Sep
Slovakia	+ 9.8	Q3	+11.1	Oct	+ 4.3	Nov	− 3.3	Sep	− 4.9	Aug	12.6	Sep
Slovenia	+ 5.9	Q3	+10.7	Oct	+ 2.3	Nov	− 1.9	Oct	− 0.9	Sep	7.5	Aug

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Dec 13th 2006
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Dec 12th		Dec 30th 2005	
	Dec 12th	year ago	Dec 12th	% a year		one week	in local currency	in $ terms
China	7.83	8.08	15.4	2.80	2,332.7	+2.1	+ 91.1	+ 96.9
Hong Kong	7.77	7.75	15.3	3.97	18,907.2	-0.2	+ 27.1	+ 26.8
India	44.8	46.1	88.1	6.63	12,995.0	-6.8	+ 38.3	+ 38.9
Indonesia	9,070	9,783	17,833	9.88	1,754.6	-1.2	+ 50.9	+ 63.7
Malaysia	3.54	3.78	6.96	3.73	1,088.4	nil	+ 21.0	+ 29.2
Pakistan	60.9	59.8	120	10.25	10,645.6	+0.9	+ 11.4	+ 9.4
Philippines	49.5	53.6	97.3	6.38	2,840.8	+1.2	+ 35.5	+ 45.3
Singapore	1.54	1.67	3.03	3.38	2,893.8	-0.3	+ 23.3	+ 32.8
South Korea	923	1,026	1,814	4.71	1,377.0	-3.1	- 0.2	+ 9.4
Taiwan	32.5	33.5	63.9	1.84	7,458.6	-2.0	+ 13.9	+ 15.1
Thailand	35.3	41.1	69.4	5.25	738.3	-0.6	+ 3.4	+ 20.2
Argentina	3.06	3.01	6.01	10.63	1,972.0	-0.3	+ 27.8	+ 26.5
Brazil	2.15	2.25	4.22	13.19	43,018.0	-0.3	+ 28.6	+ 39.8
Chile	527	512	1,036	5.16	11,840.6	+0.5	+ 28.6	+ 25.0
Colombia	2,273	2,275	4,469	6.52	10,535.4	-0.3	+ 10.7	+ 11.4
Mexico	10.8	10.6	21.3	7.03	25,828.5	+0.9	+ 45.1	+ 42.3
Peru	3.21	3.45	6.31	4.50	12,325.0	+5.2	+156.6	+174.3
Venezuela	3,075§	2,587§	6,045	10.00	45,622.0	-0.3	+123.7	+ 88.2
Egypt	5.72	5.75	11.24	9.53	59,073.4	+3.5	+ 6.7	+ 7.2
Israel	4.20	4.60	8.25	5.08	942.2	+0.3	+ 13.8	+ 24.9
Saudi Arabia	3.75	3.75	7.37	5.04	7,837.1	-2.0	- 53.1	- 53.1
South Africa	6.99	6.29	13.7	9.15	23,555.1	-2.6	+ 30.2	+ 18.1
Czech Republic	21.1	24.3	41.4	2.57	1,619.6	+1.2	+ 10.0	+ 28.5
Hungary	192	212	377	8.12	23,930.5	+1.6	+ 15.1	+ 28.7
Poland	2.87	3.22	5.65	4.19	51,747.1	-1.2	+ 45.4	+ 64.7
Russia	26.3	28.7	51.6	11.00	1,841.9‡	+1.1	+ 49.5	+ 63.6
Turkey	1.43	1.35	2.81	19.75	39,213.0	+2.8	- 1.4	- 6.8
EM (MSCI)*	1.00	1.00	1.97	na	875.4	-1.5	+ 23.9	+ 23.9
EMBI+†	1.00	1.00	1.97	na	407.7	+0.5	+ 10.6	+ 10.6

*Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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